BEFORE THE

SOUTH CAROLINA PUBLIC SERVICE COMMISSION

IN RE:	)	
	)	
APPLICATION OF TC SYSTEMS, INC. FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY TO PROVIDE LOCAL	)	
EXCHANGE SERVICE (INCLUDING	)	
EXCHANGE ACCESS) AND INTRASTATE	)	
AND INTEREXCHANGE	)	
TELECOMMUNICATIONS SERVICES	)	DOCKET NO. _______________
WITHIN THE STATE OF SOUTH CAROLINA	)	
FOR FLEXIBLE RATE STRUCTURE FOR	)	
FOR LOCAL EXCHANGE SERVICE	)	
OFFERINGS FIRST APPROVED IN	)	
DOCKET NO. 97-467-C AND FOR	)	
ALTERNATIVE REGULATION FIRST	)	
APPROVED IN DOCKET NO. 95-661-C	)	

APPLICATION OF TC SYSTEMS, INC.

TC Systems, Inc. ("TC Systems" or the "Applicant"), hereby applies to the South Carolina Public Service Commission (the "Commission") for a Certificate of Public Convenience and Necessity, pursuant to S.C. Code Ann. §58-9-280(B), as amended, and the Commission's Rules and Regulations, authorizing Applicant to provide facilities-based and resold local exchange (including exchange access) and intrastate, interexchange telecommunications and data communications services within the State of South Carolina. In addition, Applicant requests that the Commission regulate its local exchange telecommunications services in accordance with the principles and procedures established for flexible regulation in Commission Order No. 98-165 in Docket No. 97-467-C. Pursuant to S.C. Code Ann. §58-9-585 and the general regulatory authority of the Commission, Applicant also requests that the Commission regulate its interexchange service offerings as described below in accordance with the principles and procedures established for alternative regulation in Commission Order Nos. 95-1734 and 96-55 in Docket No. 95-661-C, and as modified by Commission Order No. 2001-997 in Docket No. 2000-407-C. Applicant further requests, pursuant to 103-601(3) of the Rules of the Commission, that the Commission waive the application of certain Commission Rules, as outlined herein. In compliance with the Commission's Rules and Regulations, the following information is provided:

I. DESCRIPTION OF THE APPLICANT

1. Applicant's Name and Address. Applicant's correct name and address are:

TC Systems, Inc.
One AT&T Way
Bedminster, New Jersey 07921

2. Applicant's Corporate Structure. Applicant was organized under the laws of the State of Delaware on September 20, 1989. Applicant's Articles of Incorporation are attached hereto as Exhibit "A". Applicant has applied for a Certificate of Authority to transact business in South Carolina and will supplement this Application with a certified copy of the Certificate when it is obtained. Applicant is an indirect, wholly-owned subsidiary of AT&T Corp. and an affiliate of AT&T Communications of the Southern States, LLC. AT&T Corp. is a New York corporation with headquarters at 32 Avenue of the Americas, New York, New York 10013-2412. AT&T Corp. is the ultimate parent corporation of TC Systems and AT&T Communications of the Southern States, LLC. AT&T Corp., on its own and through a number of subsidiaries, is authorized to provide domestic and international telecommunications services throughout the United States. In addition, it is authorized through a number of subsidiaries, including TC Systems, to provide local exchange service in all 50 states.

3. Applicant's Attorney's Name and Address. The correct name, address and telephone number of Applicant's attorney are:

John J. Pringle, Jr., Esq.

ELLIS, LAWHORNE & SIMS, P.A.
P.O. Box 2285
Columbia, South Carolina 29202
Tel: (803) 343-1270
Fax: (803) 799-8479

4. <u>South Carolina Offices</u>. Applicant does not maintain, and does not intend to maintain, an office in the State of South Carolina. Accordingly, the Company seeks permission, per Commission Rule 103-610, to keep its books and records at its corporate offices. Applicant's registered agent and address for service of process in the State of South Carolina is: CT Corporation System, 75 Beattie Place, Two Insignia financial Plaza, Greenville, South Carolina 29601.

II. DESCRIPTION OF APPLICANT'S PROPOSED SERVICES

5. <u>Description of Proposed Services</u>. Applicant initially intends to lease transmission lines and unbundled network elements obtained from telecommunications carriers or other providers operating in South Carolina in order to facilitate the provision of "Prime Path™" and "All in One™" services by its affiliate, AT&T Communications of the Southern States, LLC.[1] These new services will meet the needs of its multi-state business customers who have demand for services in South Carolina, and also to serve business customers located in South Carolina. The services will be based on UNE-P and will not rely on any AT&T facilities in the state. AT&T Communications entities

[1] "PrimePath™" is a DS0-level stand-alone offer for local and local toll analog inbound and outbound phone service between the customer's location and the AT&T Local Network Service (LNS) Switch Network. AT&T Long Distance Service is an option under the PrimePath™ offer. Service to the AT&T network is provided via AT&T Business Lines, AT&T Key Lines, or AT&T Business PBX Trunks. Calling features are available on AT&T Business Lines and Key Lines. AT&T PrimePath™ is designed for Business Customers with moderate call volumes. "All In One™" is a voice telecommunications solution for small business customers. All In One™ is a DS0-level integrated offer that includes All In One Local Service, All In One Long Distance Service and All In One Corporate Calling Card for Business Customers all on one bill. All In One Local Service provides business customers with a local integrated bill for access and a variety of local feature enhancements. Service to the AT&T network is provided via AT&T Business Lines. These services will be tariffed by AT&T Communications of the

use Teleport Communications Group ("TCG") support systems to order UNEs and track UNE expenses for the AT&T family of business services, including All in One and Prime Path services. TC Systems is part of the "Teleport Communications Group" of companies. These support systems and the operating support systems of the ILECs are "hard wired" with TCG codes that must be used in the UNE-P ordering process. As a result, an Operating Carrier Number ("OCN") code associated with a TCG entity must be utilized when ordering UNEs for both planned services.

Applicant's Initial Services. Initially, Applicant intends to facilitate the offer of local exchange business services in South Carolina by its affiliate, AT&T Communications of the Southern States, LLC through the purchase of unbundled network elements to be used for those services. As the purchaser of local network elements from the incumbents, TC Systems will be positioned to provide terminating access services to those carriers that transmit calls to the customers of the retail services provided over these elements, and will file an access tariff for this purpose. At some point, thereafter, depending on market conditions in South Carolina, Applicant may offer other telecommunications services to customers in South Carolina.

6. Geographic Area to Be Served. Applicant proposes to serve the entire State of South Carolina to the fullest extent permitted by the laws of the State of South Carolina and the orders, rules and regulations of the Commission.

7. Tariff. The proposed access services tariff is attached hereto at Exhibit "B". Modifications to this tariff, once approved, shall be made on such notice as is required by the Commission's rules.

8. Flexible Regulation of Local Exchange Services. Applicant requests that the Commission allow Applicant to employ a flexible local exchange rate structure first authorized by Commission

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Southern States.

Order No. 98-165 in Docket No. 97-467-C for any future local exchange services that Applicant may offer. Specifically, Applicant requests that the Commission:

(a) approve maximum rate regulation with flexibility for Applicant to adjust rates below the maximum rate levels; and

(b) permit Applicant's future local exchange service tariff filings to be presumed valid upon filing, subject to the Commission's right within thirty (30) days to institute an investigation of such filings. At the discretion of the Commission, such filings would be suspended pending further order of the Commission and any such filings would be subject to the same monitoring process as is applied to other, similarly situated carriers.

9. **<u>Alternative Regulation of Business Service Offerings</u>.** Applicant requests that its future business service offerings be regulated pursuant to the procedures described and set out in Commission Order Nos. 95-1734 and 96-55 in Docket No. 95-661-C, as modified by Commission Order No. 2001-997 in Docket No. 2000-407-C. It is Applicant's intent by this request to have its future business services regulated in the same manner as this Commission has permitted for AT&T Communications of the Southern States, LLC ("AT&T"). Specifically, Applicant requests that the Commission:

(a) authorize the removal of maximum rate tariff requirements for its business services, consumer card, operator service,[2] private line, and customer network-type offerings;

(b) presume that the tariff filings for these uncapped services be valid upon filing. However, if the Commission institutes an investigation of a particular filing within

[2] Excepting those operator-assisted calls where a consumer uses a local exchange carrier's calling card to complete calls from locations which have not selected the local exchange carrier as their toll provider. Operator surcharges and per-minute rates for this type of call were capped by Commission Order No. 2001-997, dated November 8, 2001.

seven (7) days, the tariff filing would be suspended until further order of the Commission; and

(c) grant Applicant the same treatment as AT&T in connection with any future relaxation of the Commission's reporting requirements.

10. Requested Waivers. Commission Rule 103-603(3) provides that in "any case where compliance with any…rules and regulations introduces unusual difficulty such rule or regulation may be waived by the Commission upon a finding by the Commission that such a waiver is in the public interest." As described below, compliance with certain Commission rules will "introduce unusual difficulty" for the Applicant. Additionally, Applicant asserts that granting the waivers requested herein are "in the public interest".

(a) Retention of Records (R. 103-611). Except to the extent that the Rules of the Federal Communications Commission require Applicant to keep certain of its books and records in accordance with the Uniform System of Accounts, Applicant requests that the Commission allow it to keep all other books and records in conformance with Generally Accepted Accounting Principles.

(b) Operating Area Maps (R. 103-612.2.3). Applicant intends to offer service throughout the geographic service areas of the incumbent local exchange carriers operating in the State of South Carolina. Therefore, Applicant requests that the Commission forbear from requiring Applicant to "file with this Commission a map or maps showing its certificated area and/or exchange service area(s)."

III. APPLICANT'S TECHNICAL, FINANCIAL AND MANAGERIAL QUALIFICATIONS

11. Technical and Managerial Expertise. Applicant has sufficient technical and managerial ability to provide the service for which authority is requested in this Application. Applicant or Applicant's affiliates have filed, or are in the process of filing, applications for authority to provide the telecommunications services described herein throughout the United States. Applicant has not been denied authority to provide intrastate telecommunications services in any state.

12. Financial Capability. Applicant possesses sufficient financial capability to provide its local exchange and intrastate interexchange telecommunications and data communications services on a continuous basis. Applicant is not a publicly traded company and does not maintain separate financial reports. Recent consolidated information concerning AT&T Corp., TC Systems and all other AT&T subsidiaries, including comprehensive information on AT&T Corp.'s financial status, operations, management, and services, is provided in AT&T Corp.'s most recent Form 10-Q and its 2002 Annual Report, attached hereto as Exhibit "C".

13. Compliance with Laws. By submitting this application, and by participating in all proceedings necessary to effect certification, Applicant hereby asserts its willingness and ability to comply with all rules and regulations that the Commission may impose subject to South Carolina law as now or hereafter enacted, including participation in the South Carolina Universal Service Fund. Accordingly, by this application, Applicant seeks such approval and authority as may be required for Applicant to provide local exchange (including exchange access) and intrastate, interexchange voice and data services throughout the entire State of South Carolina.

14. Procedure for Verifying Customer Ordered Changes. Applicant intends to comply with all state or federal telecommunications statutes, rules or regulations governing the processing, verification and implementation of customer ordered changes.

IV. ARGUMENT IN SUPPORT OF APPLICATION

15. Public Interest, Convenience and Necessity. Commission approval of the matters described in Applicant's Application is in the public interest. Grant of Applicant's request for authority to provide the telecommunications and data communications services described herein will increase competition for consumers of such services within the State of South Carolina. Competition, in turn, will encourage efforts by other certificated telecommunications providers to broaden the range of choices for South Carolina consumers of local exchange and long distance voice and data services. Applicant submits that, based on the information supplied herein, its proposed service offerings will provide South Carolina consumers with high quality telecommunications and data communications products and services at reasonable rates while encouraging innovation and efficiency among all providers of such products and services in the state.

WHEREFORE, based on the foregoing, Applicant respectfully requests that the Commission enter an order granting:

(1) Certificate of Public Convenience and Necessity authorizing Applicant to engage in the provision of facilities-based and resold local exchange (including exchange access) and intrastate interexchange telecommunications and data communications services within the State of South Carolina (as described in this Application);

(2) Approval for Applicant to operate under Flexible Regulation for local exchange services and Alternate Regulation for business services as requested in this Application;

(3) Approval of the requested waivers; and

(4) Any other and additional relief that the Commission may deem just and proper.

Respectfully submitted this 10th day of March, 2004.

ELLIS, LAWHORNE & SIMS, P.A.

/S/

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John J. Pringle, Jr., Esq.

P.O. Box 2285
Columbia, South Carolina 29202
Tel: (803) 343-1270
Fax: (803) 799-8479

Counsel for TC Systems, Inc.

EXHIBIT “A”

ARTICLES OF INCORPORATION

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "TC SYSTEMS, INC.", FILED IN THIS OFFICE ON THE FOURTH DAY OF OCTOBER, A.D. 1996, AT 12 O'CLOCK P.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.

Edward J. Freel, Secretary of State

2208190 8100

960289843

AUTHENTICATION: 8135555

DATE: 10-07-96

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
TC SYSTEMS, INC.

TC SYSTEMS, INC., a corporation organized and existing under the laws of the State of Delaware, **DOES HEREBY CERTIFY:**

First: That the Board of Directors of the Corporation, on October 4, 1996, acting by unanimous written consent, adopted a resolution proposing and declaring advisable an amendment to the Certificate of Incorporation of the Corporation and directing that such amendment be submitted for consideration by, and unanimous written consent of, the sole stockholder of the Corporation, at the convenience of such stockholder, in lieu of a meeting of stockholders, Article III of the Certificate of Incorporation, as proposed to be amended by such resolution, is as follows:

ARTICLE III

CORPORATE PURPOSES

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, including, without limitation, constructing, owning, using and maintaining a line or lines of electric telephone wholly within or partly without the state, or to acquire and own any interest in any such line or lines, or any grants therefor or for any or all of such purposes.

Second: That on October 4, 1996, in lieu of a meeting of stockholders, the foregoing proposed amendment was adopted by unanimous written consent of the sole stockholder of the Corporation as permitted by Section 228 of the General Corporation Law of the State of Delaware and under Article II, Section 11 of the Corporation's By-Laws.

Third: That the foregoing amendment has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by a Senior Vice President, with its corporate seal to be hereunto duly affixed and to be attested by its Secretary this 4th day of October, 1996.

By: ____________________
Senior Vice President

Attest:

____
John W. Thomson
Secretary

BOOK 918 PAGE 244

State of Delaware

25698

DOCUMENTARY SURCHARGE PAID $3.00

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF TC SYSTEMS, INC. FILED IN THIS OFFICE ON THE TWENTIETH DAY OF SEPTEMBER, A.D. 1989, AT 10 O'CLOCK A.M.

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
1835 1793 1970
DELAWARE

729263003

Michael Harkins, Secretary of State

AUTHENTICATION: 2344444

DATE: 09/20/1989

7294263003

CERTIFICATE OF INCORPORATION

of

TC SYSTEMS, INC.

FILED

SEP 20 1989 10Am

ARTICLE I

Name

The name of the Corporation is TC Systems, Inc.

ARTICLE II

Registered Office and Registered Agent

The registered office of the Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent is The Corporation Trust Company.

ARTICLE III

Corporate Purposes

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

Authorized Shares

Section 1. Shares Authorized. The total number of shares of all classes of capital stock that the Corporation is authorized to issue is two thousand (2,000) shares, of which one thousand (1,000) shares shall be Common Stock, par value ten dollars ($10.00) per share ("Common Stock") and one thousand (1,000) shares shall be Preferred Stock, par value ten dollars ($10.00) per share ("Preferred Stock").

Section 2. Rights and Restrictions of Preferred Stock. Authority is hereby expressly vested in the Board of Directors of the Corporation, subject to the provisions of this Article IV and to the limitations prescribed by law, to authorize the issue from time to time of one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the determination or fixing of the following:

(a) The designation of such series.

(b) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or series of the Corporation's capital stock, and whether such dividends shall be cumulative or non-cumulative.

(c) Whether the shares of such series shall be subject to redemption for cash, property or rights, including securities of any other corporation, by the Corporation at the option of either the Corporation or the holder or both or upon the happening of a specified event, and, if made subject to any such redemption, the times or events, prices and other terms and conditions of such redemption.

(d) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series.

(e) Whether or not the shares of such series shall be convertible into, or exchangeable for, at the option of either the holder or the Corporation or upon the happening of a specified event, shares of any other class or classes or of any other series of the same or any other class or classes of the Corporation's capital stock and, if provision be made for conversion or exchange, the times or events, prices, rates, adjustments, and other terms and conditions of such conversions or exchanges.

(f) The restrictions, if any, on the issue or reissue of any additional Preferred Stock.

(g) The rights of the holders of the shares of such series upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation.

(h) The provisions as to voting, options and/or other special rights and preferences, if any.

Section 3. <u>Rights and Restrictions of Common Stock</u>. The powers, preferences, rights, qualifications, limitations or restrictions thereof in respect to the Common Stock are as follows:

(a) The Common Stock is junior to the Preferred Stock and is subject to all powers, rights, privileges, preferences and priorities of the Preferred Stock as herein or in any resolution or resolutions adopted by the Board of Directors pursuant to authority expressly vested in it by the provisions of Section 2 of this Article.

(b) The Common Stock shall have voting rights for the election of directors and for all other purposes, each holder of Common Stock being entitled to one vote for each share thereof held by such holder, except as otherwise required by law.

Section 4. Increase or Decrease in Amount of Authorized Shares. The number of authorized shares of any class or classes of capital stock of the Corporation may be increased or decreased by an amendment to this Certificate of Incorporation authorized by the affirmative vote of the holders of a majority of the shares of the Common Stock outstanding and entitled to vote thereon and, except as expressly provided in the Certificate of Incorporation or in any resolution or resolutions adopted by the Board of Directors pursuant to the authority expressly vested in it by the provisions of Section 2 of this Article with respect to the Preferred Stock and except as otherwise provided by law, no vote by holders of capital stock of the Corporation other than the Common Stock shall be required to approve such action.

Section 5. Shares Entitled to More or Less than One Vote. If, on any matter, any class or series of the Corporation's capital stock shall be entitled to more or less than one vote for any share, every reference in this Certificate of Incorporation and in any relevant provision of law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

ARTICLE V

Corporate Existence

The Corporation is to have perpetual existence.

ARTICLE VI

Powers of Board of Directors

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized:

(a) To make, alter, amend or repeal the By-Laws, except as otherwise expressly provided in any By-Law made by the holders of the capital stock of the Corporation entitled to vote thereon. Any By-Law may be altered, amended or repealed by the holders of the capital stock of the Corporation entitled to vote thereon at any annual meeting or at any special meeting called for that purpose.

(b) To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

(c) To determine the use and disposition of any surplus and net profits of the Corporation, including the determination of the amount of working capital required, to set apart out of any of the funds of the Corporation, whether or not available for dividends, a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

(d) To designate, by resolution passed by a majority of the whole Board of Directors, one or more committees, each committee to consist of two or more directors of the Corporation, which, to the extent provided in the resolution designating the committee or in the By-Laws of the Corporation, shall, subject to the limitations prescribed by law, have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers that may require it. Such committee or committees shall have such name or names as may be provided in the By-Laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.

(e) To adopt such pension, retirement, deferred compensation or other employee benefit plans or provisions as may, from time to time, be approved by it, providing for pensions, retirement income, deferred compensation or other benefits for officers or employees of the Corporation and of any corporation that is a subsidiary of the Corporation, or any of them, in consideration for or in recognition of the services rendered by such officers or employees or as an inducement to future efforts. No such plan or provision, which is not at the time of adoption unreasonable or unfair, shall be invalidated or in any way affected because any director shall be a beneficiary thereunder or shall vote for any plan or provision under which he may benefit.

(f) To exercise, in addition to the powers and authorities hereinbefore or by law conferred upon it, any such powers and authorities and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware and of the Certificate of Incorporation and of the By-Laws of the Corporation.

ARTICLE VII

Limitation of Directors' Liability; Indemnification by Corporation

Section 1. Limitation of Directors' Liability. (a) No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except, to the extent provided by applicable law, for liability (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is hereafter amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the liability of each director of the Corporation shall be limited or eliminated to the full extent permitted by the Delaware General Corporation Law as so amended from time to time.

(b) Neither the amendment nor repeal of this Section 1, nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Section 1, shall eliminate or reduce the effect of this Section 1, in respect of any matter occurring, or any cause of action, suit or claim that, but for this Section 1, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

Section 2. Indemnification by Corporation. (a) The Corporation shall indemnify any person who is or was a director or officer of the Corporation, with respect to actions taken or omitted by such person in any capacity in which such person serves the Corporation, to the full extent authorized or permitted by law, as now or hereafter in effect, and such right to indemnification shall continue as to a person who has ceased to be a director or officer, as the case may be, and shall inure to the benefit of such person's heirs, executors and personal and legal representatives; provided, however, that, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any person in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized in advance, or unanimously consented to, by the Board of Directors of the Corporation.

(b) Directors and officers of the Corporation shall have the right to be paid by the Corporation expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition.

(c) The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation.

(d) The rights to indemnification and to the advancement of expenses conferred in this Section 2 shall not be exclusive of any other right that any person may have or hereafter acquire under this Certificate of Incorporation, the by-laws, any statute, agreement, vote of stockholders or disinterested directors, or otherwise.

(e) Any repeal or modification of this Section 2 by the stockholders of the Corporation shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

ARTICLE VIII

Reservation of Right to Amend Certificate of Incorporation

The Corporation reserves the right to amend, alter, change or repeal any provisions contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law, and all the provisions of this Certificate of Incorporation and all rights and powers conferred in this Certificate of Incorporation on stockholders, directors and officers are subject to this reserved power.

ARTICLE IX

The name and mailing address of the incorporator is Gary C. Dolan, World Financial Center, North Tower, New York, New York 10281-1222.

For the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, the undersigned hereby declares and certifies that the facts herein stated are true; and accordingly has hereunto set his hand this 18th day of September, 1989.

Gary C. Dolan
Incorporator

RECEIVED FOR RECORD

SEP 21 1989

EVELYN T. ALEMAR, Recorder

8981C

<u>EXHIBIT “B”</u>

<u>PROPOSED TARIFF</u>

MASTER TABLE OF CONTENTS

INDEX

PREFACE

1. General

This tariff contains the regulations and rates applicable to Access Services.

2. Tariff Structure

This tariff is structured in a manner which separates regulations from rates. The regulations applicable to the services offered in this tariff are placed in sections in the forward part of the tariff, while the rates for those offerings are placed in a single rate section in the rear of the tariff, Section E17. References are provided in the service sections of the tariff to assist the tariff user in the location of rates. Similarly, the rate section contains a list of services with applicable rate section numbers.

To locate the section for a particular service, refer to the Master Table of Contents. If a more detailed listing of the material is required, refer to the tariff section Table of Contents.

3. Abbreviations and Definitions

Following is a list of the abbreviations used in the tariff. In addition, the General Regulations section contains a Definitions sub-section which defines certain technical terms which have a specific meaning within the **context** of this tariff. (See General Regulations, Section E2.6).

3.1 Explanation of Abbreviations

BNA - Billing Name and Address
BP - Billing Percentage
CLEC- Certified Local Exchange Carrier
CLLI- Common Language Location Identifier
CIC - Carrier Identification Code
CO - Central Office
CPE - Customer Provided Equipment
FCC - Federal Communications Commission
IC - Interexchange Carrier or Interexchange Common Carrier
ICB - Individual Case Basis
ILNP- Interim Local Number Portability
LATA- Local Access and Transport Area
LOA - Letter of Authorization
Mbps- Megabits per second
MECAB Multiple Exchange Carrier Access Billing
MECOD Multiple Exchange Carrier Ordering and Design

NIS - Network Interconnection Service
NPA - Numbering Plan Area
NXX - Three Digit Central Office Prefix
PIU - Percent of Interstate Use

For Illustrative Purposes Only

PLSU- Percent Local Signaling Use
PLU - Percent Local Usage
POI - Point of Interconnection

PREFACE

3.1 Explanation of Abbreviations(Cont'd)

POT - Point of Termination
SS7 - Signaling System 7
STP - Signal Transfer Point
SWC - Serving Wire Center
U.S.- United States
USOC- Uniform Service Order Code
V&H - Vertical and Horizontal

PREFACE

4. Explanation of Symbols

Revisions to this tariff are coded through the use of symbols. These symbols appear in the right margin of the page. The symbols and their meanings are:

C - To signify changed regulation.
D - To signify discontinued rate or regulation.
I - To signify increase.
N - To signify new rate or regulation.
R - To signify reduction.
T - To signify a change in text but no change in rate or regulation.

Other marginal codes are used to direct the tariff reader to a footnote for specific information. These codes appear in the right margin. Examples of these codes are “L” or “M” which indicate text has been relocated to or from another page or section of the tariff.

5. Trademarks and Service Marks

The following marks, to the extent, if any, used throughout this tariff, are trademarks or service marks of TC SYSTEMS, INC.

Trademarks	Service Marks
NONE	NONE

PREFACE

6. Tariff Format

6.1 Page Numbering

Page numbers appear in the upper-right corner of the page. Pages are numbered sequentially. When a new page is added between existing pages with whole numbers, a decimal is added. For example, a new page added between pages 34 and 35 would be 34.1.

6.2 Page Revision Numbers

Revision numbers also appear in the upper-right corner of the page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised page 34 cancels the 3rd revised page 34.

6.3 Section Numbering Sequence

There are eight levels of alpha-numeric coding used in the tariff. Each Level is subservient to its next higher level. The following is an example of the numbering sequence used.

1. (Level 1)
1.1 (Level 2)
1.1.1 (Level 3)
A. (Level 4)
1. (Level 5)
a. (Level 6)
(1) (Level 7)
(a) (Level 8)

6.4 References to Other Tariffs

Whenever reference is made to other tariffs, the reference is to the tariffs in force as of the effective date of the reference, and to amendments thereto and successive issues thereof.

7. Technical Publication Information

The issue and availability dates of the Technical Publications referenced in this tariff are as follows:

Publication Number	Issue Date	Date Available to Public
NONE		

1. APPLICATION OF THE TARIFF

1.1 Application

1.1.1 General

This tariff contains regulations, rates and charges applicable to the provision of Intrastate Access Services and Network Interconnection Services provided to Customers by TC SYSTEMS, INC, hereinafter referred to as the Company.

The provision of such services by the Company as set forth in this tariff does not constitute a joint undertaking with the Customer for the furnishing of any service.

The locations served by the Company and the services available are as set forth in Section 16.3.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

A. The Company does not undertake to transmit messages under this tariff.

B. The Company shall be responsible only for the installation, operation and maintenance of the services it provides.

C. The Company will, for maintenance purposes, test its service only to the extent necessary to detect and/or clear troubles.

D. Services are provided 24 hours daily, seven days per week, except as set forth in other applicable sections of this tariff.

E. The Company does not warrant that its facilities and services meet standards other than those set forth in this tariff.

F. The Company makes no undertaking under this tariff with respect to any Customer that has provided a Service Order relating to facilities of the Company to another telephone company (such as a provider of service at an Access Tandem), but has not provided a copy of the Service Order directly to the Company under Section 5. Notwithstanding the foregoing, such Customers shall be liable for the obligations and undertakings of Customers under this tariff as fully as if such Customers had provided valid Service Orders directly to the Company.

G. With respect tounbundled network elements, the Company shall not be responsible for the facilities used to provide such services, including installation, operation, maintenance, testing, trouble handling, or performance of such facilities.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.2 Limitations

A. Assignment or Transfer of Services

The Customer may assign or transfer the use of services provided under this tariff only where there is no interruption of use or relocation of the services. Such assignment or transfer may be made to:

1. another Customer, whether an individual, partnership, association or corporation, provided the assignee or transferee assumes all outstanding indebtedness for such services, and the unexpired portion of the minimum period and the termination liability applicable to such services, if any; or

2. a court-appointed receiver, trustee or other person acting pursuant to law in bankruptcy, receivership, reorganization, insolvency, liquidation or other similar proceedings, provided the assignee or transferee assumes the unexpired portion of the minimum period and the termination liability applicable to such services, if any.

In all cases of assignment or transfer, the written acknowledgment of the Company is required prior to such assignment or transfer. This acknowledgment shall be made within 15 days from receipt of written notification.

All regulations and conditions contained in this tariff shall apply to such assignee or transferee.

The assignment or transfer of services does not relieve or discharge the assignor or transferor from remaining jointly or severally liable with the assignee or transferee for any obligations existing at the time of the assignment or transfer.

B. Use and Restoration of Services

The use and restoration of services shall be in accordance with Part 64, Subpart D, Appendix A, of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.2 Limitations (Cont'd)

C. Reserved for Future Use.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.3 Liability

A. Limits of Liability

The Company's liability, if any, for its willful misconduct is not limited by this tariff. With respect to any other claim or suit, by a Customer or by any others, for damages associated with the installation, provision, termination, maintenance, repair or restoration of service, the Company's liability, if any, shall not exceed an amount equal to the proportionate charge for the service for the period during which the service was affected.

B. Acts or Omissions

The Company shall not be liable for any act or omission of any other carrier or Customer providing a portion of a service, nor shall the Company for its own act or omission hold liable any other carrier or Customer providing a portion of a service.

C. Damages to Customer Premises

The Company is not liable for damages to the Customer premises or any End User premises resulting from the furnishing of a service, including the installation and removal of equipment and associated wiring, unless the damage is caused by the Company's negligence.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.3 Liability (Cont'd)

D. Explosive Atmospheres

The Company does not guarantee or make any warranty with respect to its services when used in an explosive atmosphere. The Company shall be indemnified, defended and held harmless by the Customer from any and all claims by any person relating to such Customer's use of services so provided.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.3 Liability (Cont'd)

E. No License Granted

No license under patents (other than the limited license to use) is granted by the Company or shall be implied or arise by estoppel, with respect to any service offered under this tariff. The Company will defend the Customer against claims of patent infringement arising solely from the use by the Customer of services offered under this tariff and will indemnify such Customer for any damages awarded based solely on such claims.

F. Circumstances Beyond the Company's Control

The Company's failure to provide or maintain services under this tariff shall be excused by labor difficulties, governmental orders, civil commotions, criminal actions taken against the Company, acts of God and other circumstances beyond the Company's reasonable control.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.4. Provision of Services

The Company will provide to the Customer, at the Customer's request upon reasonable notice, services offered in this tariff. Services will be made available to the extent that such services are or can be made available with reasonable effort, and the Company determines in its discretion that sufficient capacity and facilities are available to allow for the provision of such services.

2.1.5. Reserved for Future Use.

2.1.6. Reserved for Future Use.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.6. Reserved For Future Use.

2.1.7. Changes and Substitutions

Except as provided for equipment and systems subject to FCC Part 68 Regulations at 47 C.F.R. Section 68.110(b), the Company may, where such action is reasonably required in the operation of its business, substitute, change or rearrange any Company facilities used in providing service under this tariff. Such actions may include, without limitation:

- substitution of fiber or optical facilities,
- change of minimum protection criteria,
- change of operating or maintenance characteristics of facilities, or
- change of operations or procedures of the Company.

In case of any such substitution, change or rearrangement, the transmission parameters will be within the range set forth in applicable sections of this tariff. The Company shall not be responsible if any such substitution, change or rearrangement renders any Customer furnished services obsolete or requires modification or alteration thereof or otherwise affects their use or performance. If such substitution, change or rearrangement materially affects the operating characteristics of the facility, the Company will provide reasonable notification to the Customer in writing. Reasonable time will be allowed for any redesign and implementation required by the change in operating characteristics. The Company will work cooperatively with the Customer to determine reasonable notification procedures.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.8. Refusal and Discontinuance of Service

A. If a Customer fails to comply with 2.1.6. preceding or 2.3.1., 2.3.4., 2.3.5., 2.4. or 2.5. following including any Customer's failure to make payments on the date and times therein specified, the Company may, on thirty (30) days written notice to the Customer, take the following actions:

-refuse additional applications for service from the Customer and/or;
-refuse to complete any pending service orders from the Customer, and/or;
-discontinue the provision of service to the Customer.

In the case of discontinuance all applicable charges, including termination charges, shall become due.

B. If a Customer or Customer's End User fails to comply with 2.2.2. following, the Company may, on its own initiative or upon written request from a Customer, an End User or another Carrier, terminate service to any End User or Customer identified as having utilized service provided under this tariff in the completion of abusive or unlawful telephone calls. Service shall be terminated by the Company as provided for in its local exchange service tariffs.

In such instances when termination occurs pursuant to a request, the Company shall be indemnified, defended and held harmless by any Customer, End User or other Carrier requesting termination of service against any suit, claim, loss or damage, including punitive damages, attorney fees and court costs, arising out of the Company's actions in terminating such service, unless caused by the Company's sole negligence.

C. Except as provided for equipment or systems subject to the FCC Part 68 Rules in 47 C.F.R. Section 68.108, if the Customer fails to comply with 2.2.1 following, the Company will, where practicable, notify the Customer that temporary discontinuance of the use of a service may be required; however, where prior notice is not practicable, the Company may temporarily discontinue service forthwith if such action is reasonable in the circumstances. In case of such temporary discontinuance, the Customer will be notified promptly and afforded the opportunity to correct the condition which gave rise to the temporary discontinuance.

D. If the Company does not refuse additional applications for service and/or does not discontinue the provision of the services as specified for herein, and the Customer's noncompliance continues, nothing contained herein shall preclude the Company's right to refuse additional applications for service and/or to discontinue the provision of the services to the non-complying Customer without further notice.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

E. The Company may immediately, and without notice, discontinue the furnishing of any and/or all services to the Customer if the Company deems that such action is necessary to prevent or protect against fraud or to otherwise protect its personnel, agents, other customers, facilities or services. The Company may discontinue service under this Section 2.1.8.E, if the Company determines that a Customer is using, or attempting to use, the services with the intent to avoid the payment, either in whole or in part, of any of the Company's tariffed charges by:

-Using or attempting to use service by rearranging, tampering with, or making connections not authorized by this tariff to the Company's service, or

-Using fraudulent means or devices, tricks, false or invalid numbers, false credit devices, or electronic devices, whether directed at the Company or others, or

-Using any fraudulent means or devices.

2.1.9. Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in the normal operation of its business. Such activities may include, but are not limited to the following:

- equipment or facilities additions,
- removal or rearrangements,
- routine preventative maintenance, and
- major switching machine change-out

Generally, such activities are not individual Customer service specific, but may affect many Customer services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine reasonable notification requirements.

2.1.10. Coordination with Respect to Network Contingencies

The Company intends to work cooperatively with the Customer to develop network contingency plans in order to maintain maximum network capability following natural or man-made disasters which affect telecommunications services.

2. GENERAL REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.11. Provision and Ownership of Telephone Numbers

The Company reserves the right to assign, designate or change telephone numbers, any other call number designations associated with services provided under this tariff, or the Company serving central office prefixes associated with such numbers, when necessary in the conduct of its business. Should it become necessary for the Company to make a change in such number(s), the Company will furnish to the Customer six (6) months notice, by Certified US mail of the effective date and an explanation of the reason(s) for such change(s).

2.1.12. Network Management

The Company will administer its network to insure the provision of acceptable service levels to all telecommunications users of the Company's network services. Generally, service levels are considered acceptable only when both End Users and Customers are able to establish connections with little or no delay encountered within the Company network. The Company maintains the right to apply protective controls over any traffic carried over its network, including that associated with Access Services or Network Interconnection Services. Generally, protective measures (such as those actions which selectively cancel the completion of traffic) would only be taken as a result of occurrences such as failure or overload of Company or Customer facilities, natural disasters, mass calling or national security demands.

2.1.13. Reserved for Future Use.

2. GENERAL REGULATIONS

2.2 Use

2.2.1. Interference or Impairment

The characteristics and methods of operation of any circuits, facilities or equipment provided by other than the Company and associated with the facilities utilized to provide services under this tariff shall not:

- -interfere with or impair service over any facilities of the Company, its affiliated companies, or its connecting and concurring carriers involved in its services,
- -cause damage to their plant,
- -impair the privacy of any communications carried over their facilities, or
- -create hazards to the employees of any of them or to the public.

2.2.2 Unlawful and Abusive Use

The service provided under this tariff shall not be used for an unlawful purpose or used in an abusive manner.

Abusive use includes:

-The use of the service of the Company for a call or calls, anonymous or otherwise, in a manner reasonably expected to frighten, abuse, torment, or harass another;

-The use of the service in such a manner as to interfere with the use of the service by one or more other Customers or End Users.

2.3. OBLIGATIONS OF THE CUSTOMER

2.3.1. Reserved for Future Use

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2.3.2. Reserved for Future Use.

2.3.3. Reserved for Future Use.

2.3.4. Reserved for Future Use.

2.3.5. Reserved for Future Use.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2.3.6. References to the Company

The Customer may advise End Users that certain services are provided by the Company in connection with the service the Customer furnishes to End Users; however, the Customer shall not represent that the Company jointly participates in the Customer's services.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2.3.7. Indemnification of the Company

A. By the Customer

1. With respect to claims of patent infringement made by third persons, the Customer shall defend, indemnify, protect and save harmless the Company from and against all claims arising out of the combining with, or use in connection with, the services provided under this tariff, any circuit, apparatus, system or method provided by the Customer.

2. The Customer shall defend, indemnify and save harmless the Company from and against any suits, claims, losses and damages, including punitive damages, attorney fees and court costs by third persons arising out of the construction, installation, operation, maintenance, or removal of the Customer's circuits, facilities, or equipment connected to the Company's services provided under this tariff including, without limitation, Worker's Compensation claims, actions for infringement of copyright and/or unauthorized use of program material, libel and slander actions based on the content of communications transmitted over the Customer's circuits, facilities or equipment, and proceedings to recover taxes, fines, or penalties for failure of the Customer to obtain or maintain in effect any necessary certificates, permits, licenses, or other authority to acquire or operate the services provided under this tariff; provided, however, the foregoing indemnification shall not apply to suits, claims, and demands to recover damages for damage to property, death, or personal injury unless such suits, claims or demands are based on the tortious conduct of the Customer, its officers, agents or employees.

3. The Customer shall defend, indemnify and save harmless the Company from and against any suits, claims, losses or damages, including punitive damages, attorney fees and court costs by the Customer or third parties arising out of any act or omission of the Customer in the course of using services provided under this tariff.

B. By the End User

1. With respect to claims of patent infringement made by third persons, the End User shall defend, indemnify, protect and save harmless the Company from and against all claims arising out of the combining with, or use in connection with, the services provided under this tariff, any circuit, apparatus, system or method provided by the End User.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2. The End User shall defend, indemnify and save harmless the Company from and against any suits, claims, losses and damages, including punitive damages, attorney fees and court costs by third persons arising out of the construction, installation, operation, maintenance, or removal of the End User's circuits, facilities, or equipment connected to the Company's services provided under this tariff including, without limitation, Worker's Compensation claims, actions for infringement of copyright and/or unauthorized use of program material, libel and slander actions based on the content of communications transmitted over the End User's circuits, facilities or equipment, and proceedings to recover taxes, fines, or penalties for failure of the End User to obtain or maintain in effect any necessary certificates, permits, licenses, or other authority to acquire or operate the services provided under this tariff; provided, however, the foregoing indemnification shall not apply to suits, claims, and demands to recover damages for damage to property, death, or personal injury unless such suits, claims or demands are based on the tortious conduct of the End User, its officers, agents or employees.

3. The End User shall defend, indemnify and save harmless the Company from and against any suits, claims, losses or damages, including punitive damages, attorney fees and court costs by the End User or third parties arising out of any act or omission of the End User in the course of using services provided under this tariff.

2.3.8. Coordination with Respect to Network Contingencies

The Customer shall, in cooperation with the Company, coordinate in planning the actions to be taken to maintain maximum network capability following natural or man-made disasters which affect telecommunications services.

2.3.9. Jurisdictional Report Requirements

A. General

The Company cannot in all cases determine the jurisdictional nature of Customer traffic and its related minutes of use. In such cases the Customer shall be requested to provide a projected estimate of its split between the intrastate and interstate jurisdictions. The following regulations govern such estimates and their reporting by the Customer.

Pursuant to Federal Communications Commission Order FCC 85-145 released April 16, 1985, interstate usage is to be developed as though every call that enters a Customer network at a point within the same state as that in which the called station (as designated by the called station telephone number) is situated is an intrastate communication and every call for which the point of entry is a state other than that where the called station (as designated by the called station telephone number) is situated is an interstate communication.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

1. Jurisdictional Reports

When the Company is unable to determine the jurisdictional nature of the Customer's traffic, the Customer shall report the Percent of Interstate Use (PIU) by LATA and such report will be used for billing purposes.

Effective on the first of January, April, July and October of each year the Customer shall update the jurisdictional report. The Customer shall forward to the Company, to be received no later than twenty (20) days after the first of each such month, a revised report showing the intrastate and interstate percent of use for the past 12 months ending the last day of December, March, June and September, respectively for each LATA. The revised report will serve as the basis for the next three (3) months billing and will be effective on the bill date for that service. No prorating or back billing will be done based on the revised report.

If the Customer does not supply the jurisdictional reports, the Company may deem the Customer to have reported percentages that are the same as those provided in the last quarterly report. For those cases in which a quarterly report has never been received from the Customer, the Company may deem the Customer to have reported percentages that are the same as those provided in the order for service. Absent percentages supplied (or deemed by the Company to have been supplied) by the Customer, the Company will, only for that portion of the Customer's usage for which the Company is unable to determine the appropriate jurisdiction, bill the Customer's usage at the jurisdictional rate which produces the highest charge. This default billing procedure will remain in effect until the Customer: provides call detail information to the Company pursuant to 2.3.11 following (if the provision of such information would permit the Company to determine jurisdiction), supplies the necessary jurisdictional percentages, or agrees with the Company on an alternate default billing procedure.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2.3.9. Jurisdictional Report Requirements (Cont'd)

B. Jurisdictional Audits

The Customer shall keep sufficient detail from which the percentages of use reported to the Company (or deemed by the Company to have been reported) can be verified and upon request of the Company make such records available for inspection and audit. The Customer shall supply the required data to the Company within 30 calendar days of the Company request. The Customer must maintain these records for 24 months from the date the report became effective for billing purposes.

Initiation of an audit will be at the sole discretion of the Company. The audit shall be performed by an independent party selected by the Company. An audit may be initiated by the Company for a single Customer no more than once per year.

In the event that an inspection or audit reveals that any Customer reported percentages of use were incorrect, the Company shall apply the inspection or audit result to all usage affected by the inspection or audit. The Customer shall be back billed or credited, for a period retroactive to the date that the incorrect percentage was reported, but not to exceed 24 months. Back billed amounts are subject to a late payment penalty as set forth in 2.4.2.C. following.

Should an audit reveal that the misreported percentage(s) of use has resulted in an underpayment of charges to the Company of five (5) percent or more of the total Access Services or Network Interconnection Services bill, the Customer shall reimburse the Company for the cost of the audit. Proof of cost shall be bills, in reasonable detail, submitted to the Company by the auditor.

Within 15 days of completion of the auditor's report, the Company will furnish a copy of the audit results to the person designated by the Customer to receive such results.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2.3.10. Determination of Charges for Mixed Intrastate, Interstate and/or_Local Usage

Usage Sensitive Rate Elements

When the Customer's usage has mixed intrastate and interstate traffic, for that portion of the usage for which the Company is unable to determine the appropriate jurisdiction, the usage charges will be prorated between the intrastate and interstate. The jurisdictional percentages or default procedure set forth in 2.3.9. preceding, will serve as the basis for prorating the charges.

Monthly and Nonrecurring Chargeable Rate Elements

When the jurisdiction of the rate element can be determined by the Company the charges applicable to the appropriate jurisdiction will be applied. Rate elements for which the Company cannot determine the appropriate jurisdiction will be prorated between intrastate and interstate. The jurisdictional percentages or default procedure set forth in 2.3.9. preceding, will serve as the basis for prorating the charges.

2.3.11. SS7 Signaling; Call Detail Information

A. SS7 Signaling

The Customer will use SS7 signaling to set up Calls pursuant to this tariff. The Customer shall provide Calling Party Number (CPN) within the SS7 signaling message, if available. If it is technically infeasible for the Customer to use SS7, multi-frequency (MF) signaling shall be used by the Customer. The Customer may elect to arrange for signaling connectivity through a third party provider which is connected to the Company's SS7 network.

B. Call Detail Information

To the extent not provided pursuant to A. preceding, the Customer shall, to the extent technically feasible and consistent with industry standards, cause to be transmitted to the Company with each Call information sufficient to identify the originating and terminating telephone numbers for such Call and each Carrier (including the Customer) with respect to such Call.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2.3.12. Supervisory Signaling

The Customer's facilities connected to Access Service or Network Interconnection Service shall provide the necessary On-hook, Off-hook, answer and disconnect supervision.

2.3.13. Reserved for Future Use.

2.3.14. Sales, Use and Other Taxes/Charges

The Customer is responsible for the payment of its portion of any sales, use, gross receipts, excise, franchise, access or other local, state and federal taxes, charges or surcharges (however designated), excluding taxes on the Company's net income, imposed on or based upon the provision, sale or use of services.

If the Company becomes liable for any sales, use, gross receipts, excise, franchise, access or other local, state or federal taxes, charges or surcharges (however designated), excluding taxes on the Company's net income, which are imposed on or based upon the provision, sale or use of services, and which are in addition to such taxes, charges or surcharges already specified in this tariff, in such event the Customer shall be responsible for payment of such taxes, charges or surcharges from the date that the Company first became liable for same.

In the event of any dispute over the lawfulness of any tax, charge or surcharge, the Company may elect to impose such tax, charge or surcharge during such dispute, unless otherwise ordered by a court or other lawful authority with jurisdiction. The Company shall credit or refund any funds thus collected, if ordered to do so by such court or other lawful authority if such funds were retained by the Company, or were returned to the Company by the taxing jurisdiction which imposed such tax charge or surcharge.

2.3.15. Settlements Through Other Carriers

Where traffic is transmitted through the facilities of another Carrier, including the Incumbent Local Exchange Carrier, the Company and the Customer may permit such other Carrier to act on their behalf for billing and settlements relating to such traffic.

2. GENERAL REGULATIONS

2.3. OBLIGATIONS OF THE CUSTOMER (Cont'd)

2.3.15. Settlements Through Other Carriers (Cont'd)

In certain circumstances, the Company makes arrangements with another carrier (an "Intermediate Carrier") under which the Intermediate Carrier will provide services that may include, without limitation, data base, switching and/or transport services in connection with Calls and is authorized by the Company to bill the Customer for all access services under the Intermediate Carrier's tariff as if all such services had been provided by the Intermediate Carrier. Where such arrangements are in effect, the terms and conditions governing payment (including applicable rates and charges) for services shall be governed by the applicable tariff of the Intermediate Carrier (or other arrangement in effect between the Intermediate Carrier and the Customer), rather than this Tariff

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES

2.4.1. Description of Rates and Charges

There are three types of rates and charges that can apply to Access Services or Network Interconnection Services. These are monthly recurring rates, usage rates and nonrecurring charges. These rates and charges are applied differently to the various rate elements as set forth in applicable sections of this tariff. Other charges may also apply as set forth in D. following.

A. Monthly Rates

Monthly rates are flat recurring rates that apply each month or fraction thereof that a specific rate element is provided. For billing purposes, each month is considered to have thirty (30) days.

B. Usage Rates

Usage rates are rates that apply only when a specific rate element is used. These are applied on a per occurrence (e.g., access minute or query) basis. Usage rates are accumulated over a monthly period.

C. Nonrecurring Charges

Nonrecurring charges are one-time charges that apply for a specific work activity (i.e., installation of new services or rearrangements of installed services).

1. Installation of Service

The nonrecurring charges applicable to the installation of Access Services or Network Interconnection Services are applied on a per facility, trunk or other basis as specified in Section 17. In addition, certain nonrecurring charges may consist of “first” and “additional” charges. When charges are listed in this manner, the “first” charge applies to the first facility or trunk specified on the order, with the “additional” charge applied to each additional facility or trunk specified on the same order.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.1. Description of Rates and Charges (Cont'd)

C. Nonrecurring Charges (Cont'd)

2. Reserved for Future Use.

3. Reserved for Future Use.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.1. Description of Rates and Charges (Cont'd)

C. Nonrecurring Charges (Cont'd)

4. Reserved for Future Use.

5. Reserved for Future Use.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.2. Payment of Rates, Charges and Deposits

A. Deposits

The Company will only require a Customer which has a proven history of late payments to the Company or does not have established credit, to make a deposit prior to or at any time after the provision of a service to the Customer. No such deposit will be required of a Customer which is a successor of a Company which has established credit and has no history of late payments to the Company. Such deposit will not exceed the actual or estimated rates and charges for the service for a two (2) month period. The fact that a deposit has been made in no way relieves the Customer from complying with the Company's regulations as to the prompt payment of bills. At such time as the provision of the service to the Customer is terminated, the amount of the deposit will be credited to the Customer's account and any credit balance which may remain will be refunded.

Such a deposit will be refunded or credited to the account when the Customer has established credit or, in any event after the Customer has established a one-year prompt payment record at any time prior to the termination of the provision of the service to the Customer. In case of a cash deposit, for the period the deposit is held by the Company, the Customer will receive simple interest at the rate of six percent annually unless a different rate has been established by the appropriate legal authority in the state where the service(s) is provided, in which case that rate will apply.

Interest will accrue from the date the Customer deposit is received by the Company to and including the date such deposit is credited to the Customer's account or the date the deposit is refunded by the Company. Should a deposit be credited to the Customer's account, as indicated above, no interest will accrue on the deposit from the date such deposit is credited to the Customer's account.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.2. Payment of Rates, Charges and Deposits (Cont'd)

B. Bill Dates

The Company shall bill on a current basis all charges incurred by and credits due to the Customer under this tariff attributable to services established or discontinued during the preceding billing period. In addition, the Company shall bill in advance charges for all services to be provided during the ensuing billing period except for charges associated with service usage and for the Federal Government which will be billed in arrears. The bill day (i.e., the billing date of a bill for a Customer for Access Service under this tariff), the period of service each bill covers and the payment date will be as follows:

1. (Reserved For Future Use)

2. Access Service

Unless otherwise provided in this tariff, for Access Service, the Company will establish a bill day each month for each Customer account or advise the Customer in writing of an alternate billing schedule. Alternate billing schedules shall not be established on less than sixty (60) days notice or initiated by the Company more than twice in any consecutive twelve (12) month period.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.2. Payment of Rates, Charges and Deposits (Cont'd)

B. Bill Dates (Cont'd)

2. Access Services Other Than Presubscription (Cont'd)

The bill will cover non-usage sensitive service charges for the ensuing billing period for which the bill is rendered, any known unbilled non-usage sensitive charges for prior periods and unbilled usage charges for the period after the last bill day through the current bill day. Any known unbilled usage charges for prior periods and any known unbilled adjustments will be applied to this bill. Payment for such bills is due in immediately available funds in US dollars by the payment date, as set forth in C. following. If payment is not received by the payment date, a late payment penalty will apply as set forth in C. following.

Notwithstanding the above, bills will not be issued for amounts under $105.00. In such cases Customer billing will be held until the total amount of the bill equals or exceeds $105.00 or the Customer discontinues its service with the Company.

C. Payment Dates and Late Payment Charge

1. All bills dated as set forth in B. 2. preceding, provided to the Customer by the Company are due thirty (30) days (payment date) after the bill day or by the next bill date (i.e., same date in the following month as the bill date), whichever is the shortest interval, except as provided herein, and are payable in immediately available funds in U.S. dollars. If the Customer does not receive a bill at least twenty (20) days prior to the 30 day payment due date, then the bill shall be considered delayed. When the bill has been delayed, upon request of the Customer the due date will be extended by the number of days the bill was delayed. Such request of the Customer must be accompanied with proof of late bill receipt.

If such payment date would cause payment to be due on a Saturday, Sunday or Legal Holiday, payment for such bills will be due from the Customer as follows:

If the payment date falls on a Sunday or on a Legal Holiday which is observed on a Monday, the payment date shall be the first non-Holiday day following such Sunday or Legal Holiday.

If the payment date falls on a Saturday or on a Legal Holiday which is observed on Tuesday, Wednesday, Thursday or Friday, the payment date shall be the last non-Holiday day preceding such Saturday or Legal Holiday.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.2. Payment of Rates, Charges and Deposits (Cont'd)

C. Payment Dates and Late Payment Charge (Cont'd)

2. Further, if no payment is received by the payment date or if a payment or any portion of a payment is received by the Company after the payment date as set forth in 1. preceding, or if a payment or any portion of a payment is received by the Company in funds which are not Immediately Available funds in U.S. dollars, then subject to billing and systems availability, a Late Payment Charge shall be due to the Company. The Late Payment Charge shall be the payment or the portion of the payment in excess of $25.00 not received by the payment date times a late factor. The late factor shall be 1.5% per month unless an applicable law or regulation specifies a lower interest rate to be charged or portion thereof applied from the 31st Calendar day after the payment date to and including the date that the Company actually receives the payment. The Late Payment Charge shall be assessed monthly, based on the delinquent balance maintained on the account at the time.

D. Billing Disputes Resolved in Favor of the Company

In the event that a Customer disputes all or part of the billed amount, the Customer shall pay the disputed amount in full pending resolution of the dispute unless the Company determines, in its sole discretion, that there is an adequate deposit in respect of such disputed amount. In the event that the Company does not require the Customer to pay the disputed amount in full pending resolution of the dispute, Late Payment Charges will not apply to amounts withheld pending settlement of the dispute. If the Company sustains the charges after investigating the dispute, the applicable Late Payment Charge will apply and shall be deemed correct and binding on the Customer. If, alternatively, the Company credits the charges after investigating the dispute, the Late Payment Charge will not apply.

E. Billing Disputes Resolved in Favor of the Customer

If the Customer pays the total billed amount and disputes all or part of the amount, the Company will refund any overpayment. In addition, the Company will pay to the Customer penalty interest on the overpayment. When a claim is filed ninety (90) days after the due date, the penalty interest period shall begin on the payment date. When a claim is filed more than ninety (90) days after the due date, the penalty interest period shall begin from the date of the claim or the date of overpayment, whichever is later.

The penalty interest period shall end on the date that the Company actually renders the overpayment to the Customer. The penalty interest rate shall be the rate set forth in C. 2. preceding.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.2. Payment of Rates, Charges and Deposits (Cont'd)

F. Proration of Charges

Adjustments for the quantities of services established or discontinued in any billing period beyond the minimum period will be prorated to the number of days based on a thirty (30) day month. The Company will, upon request, furnish within thirty (30) days of a request and at no charge to the Customer such detailed information as may reasonably be required for verification of any bill.

G. Rounding of Charges

When a rate as set forth in this tariff is shown to be more than two decimal places, the charges will be determined using the rate shown. The resulting total amount will then be rounded to the nearest penny (i.e., rounded to two decimal places).

2.4.3. Minimum Periods

The minimum period for which services are provided and for which rates and charges are applicable is one month except as otherwise specified. Usage rated services (e.g., Tandem-Switched Transport) have no minimum period.

When a service is discontinued prior to the expiration of the minimum period, charges are applicable, whether the service is used or not. The applicable charge will be the total monthly charges, at the rate level in effect at the time service is discontinued, for the remainder of the minimum period plus any usage, nonrecurring and/or Special Construction charge(s) that may be due.

2.4.4. Cancellation of an Order for Service

Provisions for the cancellation of an order for service are set forth in Section 5.5.

2.4.5. Credit Allowance for Service Interruptions

A. General

A service is interrupted when it becomes unusable to the Customer because of a failure of a facility or component used to furnish service under this tariff or in the event that the protective controls applied by the Company as set forth in 2.1.12. preceding result in the complete loss of service by the Customer. An interruption period starts when an inoperative service is reported to the Company, and ends when the service is operative.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.5. Credit Allowance for Service Interruptions (Cont'd)

B. When a Credit Allowance Applies

In case of an interruption to any service, allowance for the period of interruption shall be provided unless one or more of the conditions set forth in Section 2.4.5.C. applies.

1. Credit Allowance Computation

For flat rated Access Service rate elements, no credit shall be allowed for an interruption of less than thirty (30) minutes. The Customer shall be credited for an interruption of thirty (30) minutes or more at the rate of 1/1440 of the monthly charges for the facility or service for each period of thirty (30) minutes or Major Fraction Thereof that the interruption continues.

The monthly charges used to determine the credit shall be the total of all the monthly rate element charges associated with the service.

2. Credit Allowances Cannot Exceed Monthly Charges

The credit allowance(s) for an interruption or for a series of interruptions shall not exceed the monthly recurring rate for the service interrupted in any one billing period.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.5. Credit Allowance for Service Interruptions (Cont'd)

C. When a Credit Allowance Does Not Apply

No credit allowance will be made for:

1. Interruptions caused by the negligence of the Customer.
2. Interruptions of a service due to the failure of equipment or systems provided by the Customer or others.
3. Interruptions of a service during any period in which the Company is not afforded access to the premises where the service is terminated.
4. Interruptions of a service when the Customer has released that service to the Company for maintenance purposes, to make rearrangements, or for the implementation of an order for a change in the service during the time that was negotiated with the Customer prior to the release of that service.
5. Periods when the Customer elects not to release the service for testing and/or repair and continues to use it on an impaired basis.
6. An interruption or a group of interruptions, resulting from a common cause, that would result in credit in an amount less than one dollar.
7. Interruptions of a service which continue because of the failure of the Customer to authorize replacement of any element of Special Construction. The period for which no credit allowance is made begins on the seventh day after the Customer receives the Company's written notification of the need for such replacement and ends on the day after receipt by the Company of the Customer's written authorization for such replacement.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.5. Credit Allowance for Service Interruptions (Cont'd)

D. Use of an Alternative Service Provided by the Company

Should the Customer elect to use an alternative service provided by the Company during the period that a service is interrupted, the Customer must pay the tariffed rates and charges for the alternative service used.

E. Temporary Surrender of a Service

In certain instances, the Customer may be requested by the Company to surrender a service for purposes other than maintenance, testing or activity relating to a service order. If the Customer consents, a credit allowance will be granted. The credit allowance will be 1/1440 of the monthly rate for each period of thirty (30) minutes or Major Fraction Thereof that the service is surrendered. In no case will the credit allowance exceed the monthly rate for the service surrendered in any one monthly billing period.

2.4.6. Re-establishment of Service Following Fire, Flood or Other Occurrence

A. Nonrecurring Charges Do Not Apply

Nonrecurring charges do not apply for the re-establishment of service following a fire, flood or other occurrence attributed to an Act of God provided that:

1. The service is of the same type as was provided prior to the fire, flood or other occurrence.

2. The service is for the same Customer.

3. The service is at the same location on the same premises.

4. The re-establishment of service begins within sixty (60) days after Company service is available. (The sixty (60) day period may be extended a reasonable period if the renovation of the original location on the premises affected is not practical within the allotted time period).

B. Nonrecurring Charges Apply

Nonrecurring charges apply for establishing service at a different location on the same premises or at a different premises pending re-establishment of service at the original location.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.7. Title or Ownership Rights

The payment of rates and charges by Customers for the services offered under the provisions of this tariff does not assign, confer or transfer title or ownership rights to service designs, proposals, configurations or facilities developed or utilized, respectively, by the Company in connection with the provision of such services.

2.4.8. Ordering, Rating and Billing of Access Services Where More Than One Exchange Telephone Company is Involved

Meet Point billing applies where a customer orders Call Completion Service to a tandem operated by another Exchange Telephone Company which subtends an end office operated by the Company. All other recurring and nonrecurring charges for services provided by each Exchange Telephone Company are billed under each company's applicable rates exhibited in their respective tariffs.

The Company accepts and adheres to the Ordering and Billing Forum guidelines, Multiple Exchange Carrier Access Billing (MECAB) and Multiple Exchange Carrier Ordering and Design (MECOD).

The Company will handle ordering, rating and billing of Access Services under this tariff where more than one Exchange Telephone Company is involved in the provision of Access Services as follows:

When FGD is ordered by a customer to a tandem operated by another Exchange Telephone Company which is subtended by an end office operated by TCG, the customer must provide the original order to the Exchange Telephone Company which operates the access tandem, and must provide a copy of the order to this Company.

Each Exchange Telephone Company that accepts the order will provide the portion of Switched Transport in its territory to an interconnection point (IP) with another Exchange telephone Company, and will bill the service in accordance with its tariff(s). The rates for Switched Transport (fixed and per mile), are determined as follows:

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

2.4.8. Ordering, Rating and Billing of Access Services Where More Than One Exchange Telephone Company is Involved (Cont'd)

(1)The total mileage for the service is computed using the V&H Coordinate Method set forth in National Exchange Carrier Association Tariff F.C.C. No. 4 (NECA No. 4).

(2)A billing factor called the Border Interconnection Percentage (BIP) is determined from NECA No. 4 directly.

(3)The company's rates and charges are then multiplied by the appropriate quantity(ies) and the billing factor to obtain the charges for this company.

2. GENERAL REGULATIONS

2.4. PAYMENT ARRANGEMENTS AND CREDIT ALLOWANCES (Cont'd)

Reserved for Future Use.

2. GENERAL REGULATIONS

2.5. CONNECTIONS

Equipment and systems (i.e., terminal equipment, multiline terminating systems and communications systems) may be connected with Access Service furnished by the Company where such connection is made in accordance with the provisions specified in Technical Reference Publication AS No. 1, Issue II and in Section 2.1 of this tariff.

2.6. Reserved For Future Use

2. GENERAL REGULATIONS

2.7. DEFINITIONS

Access Minutes

For the purpose of calculating chargeable usage, the term "Access Minutes" denotes Customer usage, in minutes of use, of Access Service in the provision of intrastate service. Unless otherwise provided in this tariff, on the originating end of an intrastate Call, usage is measured from the time the originating End User's Call is delivered by the Company to and acknowledged as received by the Customer's facilities connected with the originating exchange, and on the terminating end of an intrastate Call, usage is measured from the time the Call is received by the End User in the terminating exchange. Unless otherwise provided in this tariff, timing of usage at both originating and terminating ends of an intrastate Call shall terminate when the calling or called party disconnects, whichever event is recognized first in the originating and terminating exchanges, as applicable.

Access Service

The term "Access Service" denotes the use of the network or facilities of the Company to enable a Customer to terminate a Call. Notwithstanding the foregoing, "Access Service" does not include any service that constitutes Network Interconnection Service.

Access Tandem

The term "Access Tandem" denotes a switching system which provides a concentration and distribution function for terminating traffic between the Customer Premises and End Offices that are served by such Access Tandem.

Affiliate

The term "Affiliate" denotes a person or entity that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person or entity. For purposes of this paragraph, the term "own" means to own an equity interest (or the equivalent thereof) of 50 percent or more.

Business Day

The term "Business Day" denotes the times of day that a company is open for business. Generally, in the business community, these are 8:00 or 9:00 a.m. to 5:00 or 6:00 p.m., respectively, with an hour for lunch, Monday through Friday, resulting in a standard forty (40) hour work week. However, Business Day hours for the Company may vary based on Company policy, union contract and location.

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

Call

The term "Call" denotes an End User or Customer attempt for which complete address information (e.g., 7 or 10 digits) is provided to the serving dial tone office.

Carrier or Common Carrier

The term "Carrier" or "Common Carrier" denotes a Local Exchange Carrier or Interexchange Carrier.

Central Office

See End Office.

Central Office Prefix

The term "Central Office Prefix" denotes the first three digits (NXX) of the seven digit telephone number assigned to an End User's Local Exchange Service.

Channelize

The term "Channelize" denotes the process of multiplexing/demultiplexing wider bandwidth or higher speed channels into narrower bandwidth or lower speed channels.

Communications System

The term "Communications System" denotes channels and other facilities which are capable of communications between terminal equipment provided by other than the Company.

Company

The term "Company" denotes TC SYSTEMS, INC, which is the issuer of this tariff.

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

Customer(s)

The term "Customer(s)" denotes any individual, partnership, association, joint-stock company, trust, corporation, or governmental entity or other entity which subscribes to the services offered under this tariff.

Customer Premises

The term "Customer Premises" denotes the premises designated or used by the Customer for the provision of Access Service.

Dial Around Service

Dial Around Service allows an End User to reach a non-presubscribed Interexchange Carrier via dialing 10XXX or 101XXXX.

DS1 Facility

The term "DS1 Facility" denotes a facility that is capable of transmitting electrical signals at a nominal rate of 1.544 Mbps, with the capability to channelize up to 24 voice-frequency transmission paths.

DS3 Facility

The term "DS3 Facility" denotes a facility that is capable of transmitting electrical or optical signals at a nominal rate of 44.736 Mbps, with the capability to channelize up to 672 voice-frequency transmission paths.

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

End Office

The term "End Office" denotes a Company switching system where Local Exchange Service customer station loops are terminated for purposes of interconnection to each other and to trunks.

End User

The term "End User" means any customer of an interstate or foreign telecommunications service that is not a carrier, except that a carrier other than a telephone company shall be deemed to be an "End User" when such carrier uses a telecommunications service for administrative purposes, and a person or entity that offers telecommunications service exclusively as a reseller shall be deemed to be an "End User" if all resale transmissions offered by such reseller originate on the premises of such reseller.

Exchange

The term "Exchange" denotes a unit established by the Company for the administration of communications service in a specified area which usually embraces a city, town or village and its environs. It consists of one or more central offices together with the associated facilities used in furnishing communications service within that area. The exchange includes any Extended Area Service area that is an enlargement of the Company's exchange area to include nearby exchanges.

First Point of Switching

The term "First Point of Switching" denotes the first Company location at which switching occurs on the terminating path of a Call proceeding from the Customer Premises to the terminating End Office and, at the same time, the last Company location at which switching occurs on the originating path of a Call proceeding from the originating End Office to the Customer Premises.

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

Immediately Available funds in U.S. dollars

The term "Immediately Available funds in U.S. dollars" denotes a corporate or personal check drawn on a bank account and funds which are available for use by the receiving party on the same day on which they are received and include U.S. Federal Reserve bank wire transfers, U.S. Federal Reserve notes (paper cash), U.S. coins, U.S. Postal Money Orders and New York Certificates of Deposit.

Incumbent Local Exchange Carrier (ILEC)

The term "Incumbent Local Exchange Carrier" shall mean any Carrier that constitutes an "incumbent local exchange carrier" pursuant to Section 251(h)(1) of the Communications Act of 1934 or that is treated as an "incumbent local exchange carrier" pursuant to Section 251(h)(2) of the Communications Act of 1934.

Individual Case Basis (ICB)

The term "Individual Case Basis" denotes a condition in which the regulations, if applicable, rates and charges for an offering under the provisions of this tariff are developed based on the circumstances in each case.

Interconnection Agreement

The term "Interconnection Agreement" denotes a lawful written agreement between the Company and a Local Exchange Carrier relating to the mutual termination of Local Traffic.

Interexchange Carrier (IC) or Interexchange Common Carrier

The terms "Interexchange Carrier" (IC) or "Interexchange Common Carrier" denotes any individual, partnership, association, joint-stock company, trust, governmental entity or corporation engaged for hire in intrastate communication by fiber optics, wire or radio or any suitable technology or combination of technologies, between two or more exchanges.

Intermediate Carrier

The term "Intermediate Carrier" denotes another carrier with which the Company has made an arrangement under which the carrier will provide services that may include, without limitation, data base, switching and/or transport services in connection with Calls and is authorized by the Company to bill the Customer for all access services under the carrier's tariff as if all such services had been provided by the carrier.

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

Interstate Communications

The term "Interstate Communications" denotes both interstate and foreign communications.

Intrastate Communications

The term "Intrastate Communications" denotes any communications within a state subject to oversight by a state regulatory commission as provided by the laws of the state involved.

Legal Holiday

The term "Legal Holiday" denotes a day other than a Saturday or Sunday for which the Company is normally closed.

Local Access and Transport Area (LATA)

The term "Local Access and Transport Area" denotes a geographic area established for the provision and administration of communications service. It encompasses one or more designated exchanges, which are grouped to serve common social, economic and other purposes.

Local Exchange Carrier

The term "Local Exchange Carrier" denotes any individual, partnership, association, joint-stock company, trust, governmental entity or corporation engaged for hire in providing Local Exchange Service.

Local Exchange Service

The term "Local Exchange Service" denotes a service which provides for exchange telephone communication within a local calling area.

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

Local Traffic

For the purposes of this tariff, the term "Local Traffic" means calls that originate and terminate within the territory agreed to by the Company and a Customer in an Interconnection Agreement as the territory within which Calls subject to the reciprocal compensation provisions of the Interconnection Agreement are originated and terminated. "Local Traffic" shall also be subject to any other restrictions specified in an Interconnection Agreement.

Major Fraction Thereof

The term "Major Fraction Thereof" denotes any period of time in excess of 1/2 of the stated amount of time. As an example, in considering a period of 24 hours, a Major Fraction Thereof would be any period of time in excess of 12 hours exactly.

Mutual Traffic Exchange

The term "Mutual Traffic Exchange" denotes a compensation arrangement between the Company and a Customer where each party agrees to terminate on its network Local Traffic originated on the other party's network without charge to each other (also known as a "Bill and Keep" arrangement).

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

NIS

The term "Network Interconnection Services" (NIS) denotes the use of the network or facilities of the Company to enable a Carrier to terminate Local Traffic.

North American Numbering Plan

The term "North American Numbering Plan" denotes a three digit area code (Numbering Plan Area NPA) and a seven digit telephone number made up of a three digit Central Office prefix plus a four digit station number.

Off-hook

The term "Off-hook" denotes the active condition of a Local Exchange Service line.

On-hook

The term "On-hook" denotes the idle condition of a Local Exchange Service line.

Originating Direction

The term "Originating Direction" denotes the use of a service for the completion of calls from an End User Premises to a Customer Premises or Point of Interconnection.

Percent of Interstate Use (PIU)

The term "Percent of Interstate Use" (PIU) denotes the percent of interstate usage on lines or trunks carrying interstate and intrastate calls.

Point of Interconnection (POI)

The term "Point of Interconnection" (POI) denotes a place where the Company's and a Customer's networks physically connect for the purpose of exchanging (1) in the case of NIS, Local Traffic, and (2) in the case of Access Services, traffic originated by or terminating to End Users.

Point of Termination (POT)

The term "Point of Termination" is defined in Section 2.1.5. preceding.

2.7. DEFINITIONS (Cont'd)

Premises

The term "Premises" denotes a building, a portion of a building in a multitenant building or buildings on continuous property (except Railroad Right-of-Way, etc.) not separated by a public thoroughfare.

Serving Wire Center

The term "Serving Wire Center" denotes the wire center from which the Customer Premises would normally obtain dial tone from a telephone company providing access service to such premises.

Signaling System 7 (SS7)

The term "Signaling System 7 (SS7) denotes the common channel out of band signaling protocol developed by the Consultative Committee for International Telephone and Telegraph (CCITT) and the American National Standards Institute (ANSI).

Telecommunications Service

The term "Telecommunications Service" means the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used.

Terminating Direction

The term "Terminating Direction" denotes the use of a service for the completion of calls from a Customer Premises or Point of Interconnection to an End User Premises.

Toll Free (8YY) Service

Toll Free (8YY) Service is a telecommunications service which permits inward calling between a location associated with an access line in one area and locations in diverse geographical service areas specified by the owner of the Toll Free (8YY) number. The Call is without charge to the calling party. The owner of the Toll Free (8YY) number is responsible for the access charges associated with the service.

Transmission Path

The "Transmission Path" denotes an electrical path capable of transmitting signals within the range of the service offering, e.g., a voice grade transmission path is capable of transmitting voice frequencies within the approximate range of 300 to 3000 Hz. A transmission path is comprised of physical or derived facilities consisting of any form or configuration of plant typically used in the telecommunications industry.

2. GENERAL REGULATIONS

2.7. DEFINITIONS (Cont'd)

Trunk

The term "Trunk" denotes a communications path connecting two switching systems in a network, used in the establishment of an end-to-end connection.

Trunk Group

The term "Trunk Group" denotes a set of trunks which are traffic engineered as a unit for the establishment of connections between switching systems in which all of the communications paths are interchangeable.

V and H Coordinates Method

The term "V and H Coordinates Method" denotes a method of computing airline miles between two points by utilizing an established formula which is based on the vertical and horizontal coordinates of the two points.

Wire Center

The term "Wire Center" denotes a building in which one or more central offices, or access tandems are located.

2. GENERAL REGULATIONS

2.8. Universal Service Charge

Services provided pursuant to this Tariff are subject to an undiscountable monthly South Carolina Universal Service Charge. Subject to billing system availability, this Charge will be applied as a percentage of the Customer's total net international, interstate and intrastate monthly recurring and usage-based charges for calls that are billed within the state of South Carolina, after application of all applicable discounts and credits. International, interstate and intrastate charges are assessed this Charge under order by the Public Service Commission of South Carolina. For Customer invoices beginning July 15, 2003, the South Carolina Universal Service Charge is 2.47% of applicable charges.

3. RESERVED FOR FUTURE USE

4. RESERVED FOR FUTURE USE

5. RESERVED FOR FUTURE USE

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For Illustrative Purposes Only

10. RESERVED FOR FUTURE USE.

10. RESERVED FOR FUTURE USE.

10. RESERVED FOR FUTURE USE.

10. RESERVED FOR FUTURE USE.

11. RESERVED FOR FUTURE USE

12. RESERVED FOR FUTURE USE

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.1 Reserved for Future Use.

13.2 Reserved for Future Use.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.3. Reserved for Future Use.

13.3.1. Reserved for Future Use.

13.3.2. Reserved for Future Use.

13.3.3. Reserved for Future Use.

13.3.4. Reserved for Future Use.

13.3.5. Other Labor

Other labor is that additional labor not included in 13.3.1. through 13.3.4. preceding and labor incurred to accommodate a specific Customer request that involves only labor which is not covered by any other section of this tariff.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4 Miscellaneous Services

13.4.1 Reserved For Future Use

A. Reserved For Future Use

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4 Miscellaneous Services (Cont'd)

13.4.1 Reserved For Future Use (Cont'd)

B. Reserved For Future Use

C. Reserved For Future Use

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4 Miscellaneous Services (Cont'd)

13.4.1 Reserved For Future Use (Cont'd)

D. Reserved For Future Use

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4 Miscellaneous Services (Cont'd)

13.4.2 Billing Name and Address Service

A. General Description

1. Billing Name and Address (BNA) Service is the provision by the Company to an intrastate service provider who is a Customer of the Company of the complete billing name, street address, city or town, state and zip code for a telephone number assigned by the Company. An intrastate service provider is defined as an interexchange carrier, an operator service provider, an enhanced service provider or any other provider of intrastate telecommunications services.

2. BNA Service is provided only for the purposes of allowing Customers to bill their end users for telephone services provided by the Customer, order entry and Customer service information, fraud prevention, identification of end users who have moved to a new address, any purpose associated with equal access requirement, and information associated with collect calls and third party calls.

   BNA information may not be resold or used for any other purpose including, but not limited to, marketing or merchandising activities.

3. BNA information associated with listed/published telephone numbers will be provided. For calling card calls and collect and third party billed calls, the Company's BNA Service is not available with respect to accounts of nonpublished/unlisted end users who, by request to the Company (which request may be submitted at any time), have specified that such information not be released.

B. Undertaking of the Company

1. Standard formats for the receipt of BNA requests and the provision of BNA information will be established by the Company.

2. Upon written request from an authorized individual of the Customer the Company will provide BNA information. The standard response to such requests will be via e-mail or other negotiated mediums, such as Direct: Connect or tape.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4 Miscellaneous Services (Cont'd)

13.4.2 Billing Name and Address Service (Cont'd)

B. Undertaking of the Company (Cont'd)

3. Upon receipt of a magnetic tape or electronic feed of BNA requests from the Customer, the Company will, where technically feasible, enter the BNA information on the Customer's magnetic tape or data file. The standard response for magnetic tape requests will be via magnetic tape. The standard response for an electronic BNA request will be via electronic feed.

4. Non-standard methods of receiving and providing the data may be negotiated and will be provided by the Company, where available, subject to the charges set forth in Rate Section following.

5. The Company will make every effort to provide accurate and complete BNA data. The Company makes no warranties, expressed or implied, as to the accuracy or completeness of this information.

6. The Company will not disclose BNA information to parties other than intrastate service providers and their authorized billing agents. BNA disclosure is limited to those purposes as defined in 13.4.2.A.2. preceding.

7. The Company reserves the right to request from an intrastate service provider who has placed an order for BNA Service, the source data upon which the interexchange carrier has based the order. This request is made to ensure that the BNA information is to be used only for purposes as described in 13.4.2.A.2. preceding. The Company will not process the order until such time as the intrastate service provider supplies the requested data.

C. Obligations of the Customer

1. Each request for BNA information must identify both the Customer's authorized representative and the address to which the information is to be sent.

2. A Customer which intends to submit recorded messages via magnetic tape or electronic feed must provide the Company with an acceptable test tape or transmission which includes all call types for which BNA information may be requested.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4 Miscellaneous Services (Cont'd)

13.4.2 Billing Name and Address Service (Cont'd)

C. Obligations of the Customer

3. The Customer shall treat all BNA information as confidential. The Customer shall insure that BNA information is used only for the purposes as described in 13.4.2.A.2. preceding.

4. The Customer shall not publicize or represent to others that the Company jointly participates with the Customer in the development of the Customer's end user records it assembles through the use of BNA Service.

5. Upon request, the Customer will provide to the Company the source data upon which the Customer has based an order for BNA Service. The Company will not process the order until such time as the Customer provides the requested data.

6. The Company will not disclose BNA information to parties other than intrastate service providers and their authorized agents. BNA disclosure is limited to those purposes as defined in 13.4.2.A.2. preceding.

7. The Company reserves the right to request from an intrastate service provider who has placed an order for BNA Service, the source data upon which the interexchange carrier has based the order. This request is made to ensure that the BNA information is to be used only for purposes as described in 13.4.2.A.2. preceding. The Company will not process the order until such time as the intrastate service provider supplies the requested data.

D. Rate Regulations

1. A Service Establishment charge applies for the initial establishment of BNA Service for a Customer.

2. A Manual-BNA Request Charge applies in connection with written (fax and/or mail) requests for BNA information. The charge applies for each telephone number for which BNA information is requested.

3. A Mechanized-BNA Request Charge applies in connection with requests for BNA information received via magnetic tape or electronic feed. The charge applies for each telephone number for which BNA information is requested.

4. The Company will bill the Customer in accordance with 2. and 3. preceding regardless of whether or not the Company was able to provide BNA information for all requests.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4 Miscellaneous Services (Cont'd)

13.4.2 Billing Name and Address Service (Cont'd)

D. Rate Regulations (Cont'd)

5. Customer requests for BNA information which are non-standard are subject to Non-Standard-BNA Request Charges and Manual or Mechanized-BNA Request Charges as appropriate for the type of request. The additional Non-Standard-BNA Request Charge applies per BNA record requested. Additional Programming and Company-Provided Magnetic Tape Charges will also apply, if required to meet the Customer's request.

6. The rates for BNA Service are set forth in Rate Section following.

13.4.3 Reserved for Future Use.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4. MISCELLANEOUS SERVICES (Cont'd)

13.4.3 Reserved for Future Use.

13.4.4. Toll Free (8YY) Data Base Service

Toll Free (8YY) Data Base Service is an originating offering, which provides a carrier identification function for numbers using Toll Free Service Access Codes (SACs). When a Toll Free Service number is originated by an End User, the Company will query the appropriate data base to perform the carrier identification function. For this service a Carrier Identification Charge as set forth in Rate Section will apply.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4. MISCELLANEOUS SERVICES (Cont'd)

13.4.4. Toll Free (8YY) Data Base Service (Cont'd)

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4. MISCELLANEOUS SERVICES (Cont'd)

13.4.5. (Reserved For Future Use)

13.4.6. (Reserved For Future Use)

13.4.7. Provision of Access/Network Interconnection Service Billing Information

A. The Customer, upon request, has the option of receiving its primary monthly Access Service bill in one of the following standard medium, at no charge:

1. Paper
- Detailed paper bill

2. Bill Data Record
- Magnetic Tape
- Electronic Data Transmission

B. In addition to the Customer's primary monthly Access, the Customer will be provided, upon request, an abbreviated paper bill, at no additional charge.

C. At the option of the Customer, and for an additional charge as set forth in Rate Section:

1. Additional hard copies of the monthly Access or Network Interconnection Service bill or service and features record may be provided on paper.

2. Additional Bill Data Record information may be provided on magnetic tape.

3. Additional Bill Data Record information may be transmitted to the Customer by electronic data transmission.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4. MISCELLANEOUS SERVICES (Cont'd)

13.4.7. Provision of Access Service Billing Information

D. The rules and regulations concerning payment arrangements and credit allowances described in Section 2.4. applies to all primary monthly Access Service bills, regardless of the chosen bill medium.

E. Upon acceptance by the Company of a request for a change in the existing medium of the primary monthly Access or Network Interconnection Service bill data (e.g., paper to magnetic tape, magnetic tape to paper, or any of the previous two to electronic data transmission), and for an additional electronic data transmission, the Company, in cooperation with the Customer, will determine the interval required to implement the transmission of such material on an individual request basis.

The Customer requesting electronic data transmission shall be responsible for providing a data transmission system compatible with the Company transmission facilities.

F. Regulations regarding electronic data transmission failure will apply as follows:

1. In the event of transmission failure resulting from Company error, the Company will re-send a bill by electronic data transmission at no charge to the Customer. The bill payment due date will be negotiated between Company and Customer for this bill.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES

13.4. MISCELLANEOUS SERVICES (Cont'd)

13.4.7. Provision of Access Service Billing Information (Cont'd)

F. (Cont'd)

2. In the event of transmission failure resulting from failure of the Customer's transmission line or other Customer error, the Company will re-send a bill by electronic data transmission at the same rates and charges as a request for an additional copy of the bill as set forth in Rate Section.

3. In the event that there are problems or disputes regarding receipt of the data transmission other than those outlined in (1) and (2) preceding, the Company will forward a duplicate bill on magnetic tape via overnight delivery. After investigation, if (2) preceding applies, the same rates and charges as a request for an additional copy of the bill will apply as set forth in Rate Section.

14. RESERVED FOR FUTURE USE

15. CALL COMPLETION ACCESS SERVICE

15.1. GENERAL

Call Completion Service provides for the capability of originating and terminating intrastate long distance calls to and from an end user's premises to a customer's facilities vai the Company's switches.

15.1.1. Service Description

Call Completion is provided as a trunkside connection, Feature Group D (FGD), to Company switches with an associated Carrier Identification Code (CIC) for the customer's use in originating and terminating communications.

Originating traffic type represents capacity for carrying traffic from the end user to the customer; Terminating traffic represents capacity for carrying traffic from the customer to the end user.

15. CALL COMPLETION ACCESS SERVICE

15.2. RATE CATEGORIES

The two rate categories which apply are Switched Transport (described in 15.2.1. following) and the Call Completion Charge (described in 15.2.2. following).

15.2.1. Switched Transport

Switched Transport is composed of Tandem-Switched Transport.

A. Reserved for Future Use.

B. Tandem-Switched Transport

Tandem-Switched Transport provides the transmission path from the SWC of the customer's premises to an end office utilizing tandem switching functions. Tandem Switched Transport consist of circuits dedicated to the use of a single customer from the customer's premises to the access tandem and circuits used in common by multiple customers.

Tandem-Switched Transport is composed of the following usage sensitive rate elements:

- The Tandem-Switched Transport Termination rate element, which includes the non-distance sensitive portion of the Tandem-Switched Transport. The fixed rate provides the circuit equipment at the end of the interoffice transmission links.

- The Tandem-Switched Transport Facility rate element, which includes the distance sensitive portion of the Tandem-Switched Transport. The per mile rate provides the transmission facilities, including intermediate transmission circuit equipment, between the end points of the interoffice circuits.

- The Tandem switching charges will also apply when the Company in a facilities-based environment provides tandem switching, or in an unbundled environment when the ILEC charges the Company for tandem switching.

The rates and charges applicable to Tandem-Switched Transport are listed in Section 17.15. Application of those rates and charges is as set forth in 15.3.1.B. following and in Section 2.4.8.

15. CALL COMPLETION ACCESS SERVICE

15.2. RATE CATEGORIES (Cont'd)

B. Tandem-Switched Transport (Cont'd)

15.2.2. End Office Call Completion

A. Originating End Office Call Completion Rate

The Originating End Office Call Completion rate category provides for the use of end office switching equipment, terminations for the end user lines terminating in the local end office, and for the termination of calls at a Company Intercept operator or recording when provided on Company switches or when provided using unbundled network elements.

The rates for the Originating Call Completion Charge are set forth in the Rate Section. The application of these rates is as set forth in 15.3.1.C. following.

B. Terminating End Office Call Completion Charge

The Terminating End Office Call Completion rate category provides for the use of end office switching equipment, terminations for the end user lines terminating in the local end office, and for the termination of calls at a Company Intercept operator or recording when provided on Company switches or when provided using unbundled network elements.

The Terminating Call Completion rate category provides the switching and End User termination functions necessary to complete the transmission of Calls to the Premises of the End User and to originate Toll Free (8YY) Calls from a End User to a Customer.

The rates for the Terminating Call Completion Charge are set forth in Rate Section. The application of these rates is as set forth in 15.3.1.C. following.

15.2.3. Reserved For Future Use

15. CALL COMPLETION ACCESS SERVICE

15.3. RATE REGULATIONS

This section contains the specific regulations governing the rates and charges that apply to Call Completion.

15.3.1. Application of Rates and Charges

A. Reserved for Future Use.

B. Tandem-Switched Transport

Tandem-Switched Transport rates are usage sensitive. The rate application for the Tandem-Switched Transport rate element is described below.

1. Tandem-Switched Transport Termination Rate

The Tandem-Switched Transport Termination rate is assessed to all Access Minutes that are transported over Tandem-Switched Transport.

2. Tandem-Switched Facility Rate

The Tandem Switched Transport Facility rate is assessed on a per minute per mile basis to all Access Minutes that are transported over Tandem-Switched Transport. Tandem-Switched Facility mileages and charges are determined as set forth in 15.3.5. following.

3. Tandem Switching Rate
The Tandem Switching rate is assessed on a per minute basis to all Access Minutes when the Company in a facilities-based environment provides tandem switching, or when the ILEC charges the Company tandem-switching for UNE-P.

15. CALL COMPLETION ACCESS SERVICE

15.3. RATE REGULATIONS (Cont'd)

15.3.1. Application of Rates and Charges (Cont'd)

C. Call Completion Charge

The Call Completion Charge applies to all Access Minutes switched at a Company End Office.

15.3.2. Minimum Periods

The minimum periods for access are as set forth in Section 2.4.3.

15.3.3. Reserved for Future Use.

15. CALL COMPLETION ACCESS SERVICE

15.3. RATE REGULATIONS (Cont'd)

15.3.4. Measuring Access Minutes

Calls will be measured to determine the basis for computing chargeable Access Minutes. In the event the Customer call detail is not available because of lost or damaged tapes or recording system outages, the Company will estimate the volume of lost Customer Access Minutes based on previously known values.

The measured minutes for Calls are the chargeable Access Minutes.

Minutes or fractions thereof, the exact value of the fraction being a function of the switch technology where the measurement is made, are accumulated over the billing period for each Company End Office, and are then rounded up to the nearest Access Minute for each such End Office.

A. Usage Measurement

The measurement of Access Minutes begins when the recording switch receives answer supervision from the End User, indicating the End User has answered. The measurement of Access Minutes ends when the recording switch receives disconnect supervision from either the End User, indicating the End User has disconnected, or the Customer's Point of Termination, whichever is recognized first by the recording switch.

15. CALL COMPLETION ACCESS SERVICE

15.3. RATE REGULATIONS (Cont'd)

15.3.5. Mileage Measurement

The mileage to be used to determine Tandem-Switched Transport Facility mileage charges is calculated as set forth in A. and B. following.

A. When Tandem-Switched Transport is utilized by the Customer between the Customer's Serving Wire Center and the End Office, the Tandem-Switched Transport Facility mileage is measured between the Customer's Serving Wire Center and the End Office.

B. When direct transport is utilized by the Customer between the Customer's Serving Wire Center and the Access Tandem serving the End Office, the Tandem-Switched Transport Facility mileage is measured between such Access Tandem and End Office.

To determine the charge to be billed, first compute the mileage using the V&H coordinate method as set forth in Section 16.2. If the calculation results in a fraction of a mile, always round up to the next whole mile. Multiply the rounded mileage by (1) the Tandem-Switched Transport Facility rate, (2) the Access Minutes to be billed and (3) the applicable Meet Point Billing Percentage determined as set forth in Section 16.4.

15. CALL COMPLETION ACCESS SERVICE

15.4. Direct Connect Transport - ICB Arrangements

(Reserved For Future Use)

16. SERVICE AVAILABILITY AND RATING INFORMATION

16.1. GENERAL

This section contains service availability and rating information applicable to the Access Services and Network Interconnection Services offered under this tariff and is arranged as follows:

Section 16.2.V&H Coordinate Method of Determining Airline Mileage

Section 16.3.Service Availability and Wire Center Information

Section 16.4.Meet Point Billing Information

16. SERVICE AVAILABILITY AND RATING INFORMATION

16.2. V&H COORDINATE METHOD OF DETERMINING AIRLINE MILEAGE

For Access Services and Network Interconnection Services provided under this tariff, the airline mileage between any two wire centers is determined as follows:

1. Obtain the "V" and "H" coordinates for each wire center from the NECA AT&T Business Services Guide.

2. Compute the difference between the "V" coordinates of the two wire centers; and the difference between the two "H" coordinates.

3. Square each difference obtained in step (2) above.

4. Add the square of the "V" difference and the square of the "H" difference obtained in step (3).

5. Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.

6. Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.

7. Formula = $$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

16. SERVICE AVAILABILITY AND RATING INFORMATION

16.3. SERVICE AVAILABILITY AND WIRE CENTER INFORMATION

16.3.1. (Reserved For Future Use)

16.3.2. Access Services Availability - Level B

Presubscription and Billing Name and Address Service (Section 13.4.2.) shall be offered at the locations listed below:

Areas within South Carolina served by BellSouth.

16.4. Meet Point Billing Information

The applicable billing percentage factors for Access Services that are provided by more than one telephone company are as set forth in the National Exchange Carrier Association (NECA) F.C.C. No. 4.

1. GENERAL

This section contains the rates applicable to the Access Services and Network Interconnection Services offered in this tariff. The regulations applicable to these services are found in other sections of this tariff as follows:

Rate Section	Service	Regulations Located In
3	Reserved For Future Use	
4	Reserved For Future Use	
5	Reserved For Future Use	
6	Reserved For Future Use	
7	Reserved For Future Use	
8	Reserved For Future Use	
9	Reserved For Future Use	
10	Reserved For Future Use	
11	Reserved For Future Use	
12	Reserved For Future Use	
13	Additional Engineering, Labor and Miscellaneous Services	Section 13
14	Reserved For Future Use	
15	Call Completion Access Service	Section 15

For a more detailed listing of the contents of any of the sections listed above refer to the Table of Contents located in the front of each section.

17.2 Payment of Rates and Charges; Reciprocal Pricing

The regulations regarding the payment of rates and charges are set forth in Section E2.4 (Payment Arrangements and Credit Allowances).

2. Payment of Rates and Charges; Reciprocal Pricing (Cont'd)

Notwithstanding any other provision of this tariff, with respect to any Customer that, on its own or through an Affiliate, provides services comparable to the services provided under this tariff to the Company within South Carolina, during any billing period, in the event that any of the applicable rates and charges set forth in this Section 17 are lower than comparable rates and charges in effect as of the last day prior to such billing period ("Customer Prices") offered or charged by the Customer or such Affiliate to the Company anywhere within South Carolina for services comparable to the services provided under this tariff, then, for such Customer, such rates and charges in this Section 17 may be increased by the Company to an amount equal to such Customer Prices.

3. Reserved For Future Use

4. Reserved For Future Use

5. Reserved for Future Use.

6. Reserved For Future Use

7. Reserved For Future Use

8. Reserved For Future Use

9. Reserved For Future Use

10. RESERVED FOR FUTURE USE.

10. RESERVED FOR FUTURE USE.

10. RESERVED FOR FUTURE USE.

11. Reserved For Future Use

12. Reserved For Future Use

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES

13.1. Reserved for Future Use.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES (Cont'd)

13.2. Reserved for Future Use.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES (Cont'd)

13.2. Reserved for Future Use.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES (Cont'd)

13.2. Reserved for Future Use.

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES (Cont'd)

13.3. Miscellaneous Services Rates

A. Reserved For Future Use

B. Billing Name and Address Service

	USOC	Rate
Service Establishment Charge		
- Per account established	NRWBS	$500.00
BNA Request Charges		
- Manual, per BNA record requested	SWCBM	$ 1.05
- Mechanized, per BNA record requested	SWCBE	$ .18
- Non-Standard, per BNA record requested (applies in addition to the Manual or Mechanized charge)	SWCBN	$ .65
Additional Programming Charge		
- Per each half hour or fraction thereof	NRWPG	$ 40.00
Company-Provided Magnetic Tape Charge		
- Per Magnetic Tape	MMXCT	$ 25.00

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES (Cont'd)

13.3. Miscellaneous Services Rates (Cont'd)

C. (Reserved For Future Use)

D. (Reserved For Future Use)

E. (Reserved For Future Use)

F. (Reserved For Future Use)

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES (Cont'd)

13.3. Miscellaneous Services Rates (Cont'd)

G. Provision of Access Service Billing Information Rates

	USOC	Rate
- Additional hard copies of the Customer's monthly bill or service and features record on paper,		
- per page	UUUPB	$.24
- Additional copies of Bill Data Record information in magnetic tape format,		
- per record*	MMXR3	$.0029
- Additional Electronic Data Transmission to a Customer Premises of Bill Data Record information,		
- per record* transmitted	UUUED	$.0005

* A record is comprised of 225 bytes.

H. Toll Free (8YY) Data Base Service

	Per Query Charge
- Carrier Identification Charge - per query	$.004

13. ADDITIONAL ENGINEERING, LABOR AND MISCELLANEOUS SERVICES RATES (Cont'd)

13.3. Miscellaneous Services Rates (Cont'd)

I. (Reserved For Future Use)

14. Reserved For Future Use

15. CALL COMPLETION ACCESS SERVICE RATES

15.1. Tandem-Switched Transport

A. Tandem-Switched Transport Termination

	Current Rate	Minimum	Maximum
Per Access Minute	$.000310	$.00031	$.00041

B. Tandem-Switched Transport Facility

	Current Rate	Minimum	Maximum
Per Access Minute per mile	$.000030	$.00003	$.00005

C. Tandem Switching

	Rate
Per Access Minute	.000387

15.2. End Office Call Completion Charge

A. Originating End Office Call Completion Charge

	Rate
Per Access Minute	$.028373

B. Terminating End Office Completion Charge

	Rate
Per Access Minute	$.044763

EXHIBIT "C"

AT&T CORP. FORM 10-Q AND 2002 ANNUAL REPORT

Form 10-Q

AT&T CORP - T

Filed: November 12, 2003 (period: September 30, 2003)

Quarterly report which provides a continuing view of a company's financial position

Table of Contents

PART I

PART II

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

.X. QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

OR

.... TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____________to _____________

Commission file number 1-1105

AT&T CORP.

A New York
Corporation [redacted]

One AT&T Way, Bedminster, New Jersey 07921

Telephone - Area Code 908-221-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes .X No ...

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes .X No ...

At October 31, 2003, the following shares of stock were outstanding: AT&T common stock - 789,873,024

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ATTCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions (except per share amounts)			
Revenue	$ 8,649	$ 9,409	$ 26,430	$ 28,537
Operating Expenses				
Access and other connection	2,785	2,679	8,191	8,214
Costs of services and products (excluding depreciation of $874, $826, $2,608 and $2,538 included below)	1,954	2,066	5,923	6,166
Selling, general and administrative	1,793	2,032	5,551	5,911
Depreciation and amortization	1,224	1,243	3,607	3,631
Net restructuring and other charges	64	(26)	134	(26)
Total operating expenses	7,820	7,994	23,406	23,896
Operating income	829	1,415	3,024	4,641
Other (expense) income, net	(7)	(180)	89	(285)
Interest (expense)	(289)	(355)	(917)	(1,087)
Income from continuing operations before income taxes, minority interest income, and net (losses) earnings related to equity investments	533	880	2,196	3,269
(Provision) for income taxes	(72)	(370)	(677)	(1,362)
Minority interest income	-	28	1	81
Net (losses) earnings related to equity investments	(3)	(13)	3	(414)
Income from continuing operations	458	525	1,523	1,574
Net (loss) from discontinued operations (net of income tax benefit of $0, $81, $0 and $5,887)	(13)	(318)	(13)	(14,316)
Income (loss) before cumulative effect of accounting changes	445	207	1,510	(12,742)
Cumulative effect of accounting changes [net of income taxes of $17, $0, $(9) and $530]	(27)	-	15	(856)
Net income (loss)	$ 418	$ 207	$ 1,525	$(13,598)
Per basic share:				
Earnings from continuing operations	$ 0.58	$ 0.68	$ 1.94	$ 2.14
(Loss) from discontinued operations	(0.02)	(0.41)	(0.02)	(19.45)
Cumulative effect of accounting changes	(0.03)	-	0.02	(1.16)
Earnings (loss) per basic share	$ 0.53	$ 0.27	$ 1.94	$ (18.47)
Per diluted share:				
Earnings from continuing operations	$ 0.58	$ 0.67	$ 1.93	$ 2.07
(Loss) from discontinued operations	(0.02)	(0.41)	(0.01)	(18.86)
Cumulative effect of accounting changes	(0.03)	-	0.02	(1.13)
Earnings (loss) per diluted share	$ 0.53	$ 0.26	$ 1.94	$ (17.92)

The notes are an integral part of the consolidated financial statements.

ATTCORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	At September 30, 2003	At December 31, 2002
	Dollars in millions	
ASSETS		
Cash and cash equivalents	$ 6,751	$ 8,014
Accounts receivable, less allowances of $681 and $669	4,525	5,286
Deferred income taxes	617	910
Other current assets	1,109	1,693
TOTAL CURRENT ASSETS	13,002	15,903
Property, plant and equipment, net of accumulated depreciation of $33,689 and $31,021	24,719	25,604
Goodwill	4,691	4,626
Other purchased intangible assets, net of accumulated amortization of $298 and $244	508	556
Prepaid pension costs	3,791	3,596
Other assets	4,596	4,987
TOTAL ASSETS	$ 51,307	$ 55,272
LIABILITIES		
Accounts payable	$ 3,297	$ 3,819
Payroll and benefit-related liabilities	1,091	1,519
Debt maturing within one year	4,647	3,762
Other current liabilities	2,974	2,924
TOTAL CURRENT LIABILITIES	12,009	12,024
Long-term debt	12,759	18,812
Long-term benefit-related liabilities	4,240	4,001
Deferred income taxes	5,580	4,739
Other long-term liabilities and deferred credits	3,180	3,384
TOTAL LIABILITIES	37,768	42,960
SHAREOWNERS' EQUITY		
ATTCommon Stock, $1 par value, authorized 6,000,000,000 shares; issued and outstanding 789,220,022 shares (net of 171,692,349 treasury shares) at September 30, 2003 and 783,037,580 shares (net of 171,801,716 treasury shares) at December 31, 2002	789	783
Additional paid-in capital	27,855	28,163
Accumulated deficit	(15,044)	(16,566)
Accumulated other comprehensive (loss)	(61)	(68)
TOTAL SHAREOWNERS' EQUITY	13,539	12,312
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$ 51,307	$ 55,272

The notes are an integral part of the consolidated financial statements.

ATTCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY
(UNAUDITED)

	For the Nine Months Ended September 30, 2003	2002
	Dollars in millions	
ATTCommon Stock		
Balance at beginning of year	$ 783	$ 708
Shares issued, net:		
Under employee plans	5	5
For funding ATTCanada obligation	-	46
Redemption of TCI Pacific preferred stock	-	10
Other	1	1
Balance at end of period	789	770
Additional Paid-In Capital		
Balance at beginning of year	28,163	54,798
Shares issued, net:		
Under employee plans	129	295
For funding ATTCanada obligation	-	2,485
Redemption of TCI Pacific preferred stock	-	2,087
Other	25	33
Dividends declared	(482)	(422)
Other	20	34
Balance at end of period	27,855	59,310
Accumulated deficit		
Balance at beginning of year	(16,566)	(3,484)
Net income (loss)	1,525	(13,598)
Treasury shares issued at less than cost	(3)	-
Balance at end of period	(15,044)	(17,082)
Accumulated Other Comprehensive (Loss)		
Balance at beginning of year	(68)	(342)
Other comprehensive income	7	207
Balance at end of period	(61)	(135)
Total Shareowners' Equity	$ 13,539	$ 42,863
Summary of Total Comprehensive Income (Loss):		
Income (loss) before cumulative effect of accounting changes	$ 1,510	$ (12,742)
Cumulative effect of accounting changes	15	(856)
Net income (loss)	1,525	(13,598)
Other Comprehensive Income	7	207
Comprehensive Income (Loss)	$ 1,532	$ (13,391)

ATTaccounts for treasury stock as retired stock. We have 100 million authorized shares of preferred stock at $1 par value.

The notes are an integral part of the consolidated financial statements.

ATTCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2003	2002
	Dollars in millions	
OPERATING ACTIVITIES		
Net income (loss)	$ 1,525	$ (13,598)
Deduct:		
Loss from discontinued operations - net of income taxes	(13)	(14,316)
Cumulative effect of accounting changes - net of income taxes	15	(856)
Income from continuing operations	1,523	1,574
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Net gains on sales of businesses and investments	(51)	(42)
Cost investment impairment charges	-	141
Net restructuring and other charges	87	(28)
Depreciation and amortization	3,607	3,631
Provision for uncollectible receivables	588	701
Deferred income taxes	1,105	556
Net revaluation of certain financial instruments	(3)	74
Minority interest income	(1)	(81)
Net pretax (earnings) losses related to equity investments	(28)	670
Decrease in receivables	231	290
Decrease in accounts payable	(428)	(180)
Net change in other operating assets and liabilities	443	(409)
Other adjustments, net	40	47
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	7,113	6,944
INVESTING ACTIVITIES		
Capital expenditures and other additions	(2,413)	(2,813)
Proceeds from sale or disposal of property, plant and equipment	134	464
Investment sales and distributions	120	9
Net (acquisitions) dispositions of businesses, net of cash acquired	(158)	19
Increase in restricted cash	(22)	(418)
Other investing activities, net	(50)	125
NET CASH (USED IN) INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(2,389)	(2,614)
FINANCING ACTIVITIES		
Retirement of long-term debt, including redemption premiums	(4,576)	(999)
(Decrease) in short-term borrowings, net	(1,263)	(5,196)
Issuance of ATTcommon shares	92	2,640
Dividends paid on common stock	(442)	(411)
Proceeds from long-term debt issuances	-	79
Other financing activities, net	202	5
NET CASH (USED IN) FINANCING ACTIVITIES OF CONTINUING OPERATIONS	(5,987)	(3,882)
Net cash (used in) discontinued operations	-	(4,133)
Net (decrease) in cash and cash equivalents	(1,263)	(3,685)
Cash and cash equivalents at beginning of year	8,014	10,680
Cash and cash equivalents at end of period	$ 6,751	$ 6,995

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared by AT&T Corp. (AT&T or the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments necessary for a fair statement of the consolidated results of operations, financial position and cash flows for each period presented. The consolidated results for interim periods are not necessarily indicative of results for the full year. These financial results should be read in conjunction with AT&T's Form 10-K for the year ended December 31, 2002, and Form 10-Q for the quarters ended March 31, 2003, and June 30, 2003. We have reclassified certain prior period amounts to conform to our current presentation including a restatement to reflect AT&T Broadband as a discontinued operation and a restatement of shares and earnings per share to reflect the November 18, 2002, 1-for-5 reverse stock split.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STOCK-BASED COMPENSATION

AT&T has a Long-Term Incentive Program under which AT&T grants stock options, performance shares, restricted stock and other awards in AT&T common stock. We also have an Employee Stock Purchase Plan (ESPP). Effective May 31, 2003, we suspended employee purchases of company stock under the ESPP. Effective January 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" and we began to record stock-based compensation expense for all employee awards (including stock options) granted or modified after January 1, 2003. For awards issued prior to January 1, 2003, we apply Accounting Principals Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our plans. Under APB Opinion No. 25, no compensation expense was recognized other than for our performance-based and restricted stock awards, stock appreciation rights (SARs), and certain occasions when we modified the terms of the stock option vesting schedule.

If we had elected to recognize compensation costs based on the fair value at the date of grant of all awards, consistent with the provisions of SFAS No. 123, net income (loss) and earnings (loss) per share amounts would have been as follows:

	For the Three Months Ended September 30, 2003	2002	For the Nine Months Ended September 30, 2003	2002
	Dollars in millions (except per share amounts)			
Net income (loss)	$ 418	$ 207	$ 1,525	$(13,598)
Add:				
Stock-based employee compensation included in reported results from continuing operations, net of taxes	22	(2)	56	33
Stock-based employee compensation included in reported results from discontinued operations, net of taxes	-	2	-	6
Deduct:				
Total stock-based employee compensation expense determined under the fair value method for all awards relating to continuing operations, net of taxes	(59)	(44)	(168)	(171)
Total stock-based employee compensation expense determined under the fair value method for all awards relating to discontinued operations, net of taxes	-	(17)	-	(51)
Pro forma net income (loss)	$ 381	$ 146	$ 1,413	$(13,781)
Basic earnings (loss) per share	$ 0.53	$ 0.27	$ 1.94	$ (18.47)
Proforma basic earnings (loss) per share	$ 0.48	$ 0.19	$ 1.79	$ (18.72)
Diluted earnings (loss) per share	$ 0.53	$ 0.26	$ 1.94	$ (17.92)
Proforma diluted earnings (loss) per share	$ 0.48	$ 0.18	$ 1.80	$ (18.16)

Pro forma earnings from continuing operations were $421 million and $479 million for the three months ended September 30, 2003 and 2002, respectively, and $1,411 million and $1,436 million for the nine months ended September 30, 2003 and 2002, respectively. Pro forma (loss) from discontinued operations was $(13) million and $(333) million for the three months ended September 30, 2003 and 2002, respectively, and $(13) million and $(14,361) million for the nine months ended September 30, 2003 and 2002, respectively.

Pro forma earnings per basic share from continuing operations was $0.53 and

$0.62 for the three months ended September 30, 2003 and 2002, respectively, and $1.79 and $1.95 for the nine months ended September 30, 2003 and 2002, respectively. Pro forma (loss) per basic share from discontinued operations was $(0.02) and $(0.43), for the three months ended September 30, 2003 and 2002, respectively, and $(0.02) and $(19.51) for the nine months ended September 30, 2003 and 2002, respectively.

Pro forma earnings per diluted share from continuing operati ons was $0.53 and $0.61 for the three months ended September 30, 2003 and 2002, respectively, and $1.79 and $1.89 for the nine months ended September 30, 2003 and 2002, respectively. Pro forma (loss) per diluted share from discontinued operations was $(0.02) and $(0.43), respectively, for the three months ended September 30, 2003 and 2002, respectively, and $(0.01) and $(18.92), respectively, for the nine months ended September 30, 2003 and 2002, respectively.

For a detailed discussion of significant accounting policies, please refer to AT&T's Form 10-K for the year ended December 31, 2002.

3. IMPACTS OF RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

SFAS No. 143, "Accounting for Asset Retirement Obligations"
Effective January 1, 2003, AT&T adopted SFAS No. 143. This standard requires that obligations that are legally enforceable and unavoidable, and are associated with the retirement of tangible long-lived assets, be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The offset to the initial asset retirement obligation is an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its future value, and the asset is depreciated over its useful life. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

AT&T historically included in its group depreciation rates an amount related to the cost of removal for certain assets. However, such amounts are not legally enforceable or unavoidable; therefore, upon adoption of SFAS No. 143, AT&T reversed the amount accrued in accumulated depreciation. As of January 1, 2003, AT&T recorded income of $42 million as the cumulative effect of a change in accounting principle primarily related to this reversal. The impact of no longer including the cost of removal in the group depreciation rates, partially offset by the cumulative effect impact on accumulated depreciation, has resulted in a decrease to depreciation expense in 2003. However, the costs incurred to remove these assets will be reflected as a cost in the period incurred as "Costs of services and products."

Financial Accounting Standards Board Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51"
Effective July 1, 2003, AT&T early adopted FIN 46. This interpretation requires the primary beneficiary to consolidate a variable interest entity (VIE) if it has a variable interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. Based on the new standard, two entities that AT&T leases buildings from qualify as VIEs and, therefore, became subject to consolidation as of July 1, 2003. AT&T had no ownership interest in either entity, but provided guarantees of the residual values for the leased facilities with a maximum exposure of $427 million. The adoption of FIN 46 added approximately $433 million of assets (included in property, plant and equipment of AT&T Business Services and Corporate and Other group) and $477 million of liabilities (included in short-term debt) to our consolidated balance sheet and resulted in a charge of $27 million, net of income taxes, as the cumulative effect of an accounting change in the third quarter of 2003. The noncash impacts of the adoption of this interpretation include a $433 million increase in property, plant and equipment and a $477 million increase in debt. (See note 10 for discussion on exercise of purchase option).

Other Recently Adopted Accounting Pronouncements
During 2003, AT&T also adopted the following accounting pronouncements, which did not have an impact upon the initial adoption:

- SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities,"
- SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,"
- EITF 02-18, "Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition,"
- EITF 00-21, "Revenue Arrangements with Multiple Deliverables" and
- EITF 01-8, "Determing Whether an Arrangement Contains a Lease."

4. SUPPLEMENTARY FINANCIAL INFORMATION

	ATT Business Services	ATT Consumer Services	Total ATT
	Dollars in millions		
GOODWILL			
Balance at January 1, 2003	$ 4,556	$ 70	$ 4,626
Translation adjustment	65	-	65
Balance at September 30, 2003	$ 4,621	$ 70	$ 4,691

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
	Dollars in millions		
INTANGIBLE ASSETS			
Amortizable purchased intangible assets at September 30, 2003:			
Customer lists and relationships	$ 539	$ 152	$ 387
Other	267	146	121
Total intangible assets	$ 806	$ 298	$ 508

The amortization expense associated with purchased intangible assets for the three and nine months ended September 30, 2003, was $19 million and $52 million, respectively. Amortization expense for purchased intangible assets is estimated to be approximately $70 million for the year ending December 31, 2003, $60 million for the year ending December 31, 2004, $55 million for each of the years ending December 31, 2005 and 2006, and $30 million for the year ending 2007.

	Nine months ended September 30, 2003	Nine months ended September 30, 2002
	Dollars in millions	
OTHER COMPREHENSIVE INCOME (LOSS):		
Net foreign currency translation adjustment [net of income taxes of $(59) and $(38)]	$ 97	$ 61
Net revaluation of certain financial instruments:		
Unrealized gains (losses) [net of income taxes of $(66) and $443]	107	(717)
Recognition of previously unrealized (gains) losses [net of income taxes of $118 and $(535)] (1)	(191)	863
Net minimum pension liability adjustment (net of income taxes of $3 and $0]	(6)	-
Total other comprehensive income	$ 7	$ 207

(1) See below for a summary of the "Recognition of previously unrealized (gains) losses" and the Statement of Operations line items impacted.

SUMMARY OF RECOGNITION OF PREVIOUSLY UNREALIZED (GAINS) LOSSES AND THE LINE ITEMS IMPACTED:	For the Nine Months Ended September 30, 2003		2002	
	Pretax	After-tax	Pretax	After-tax
	Dollars in millions			
Other income/expense, net:				
Other-than-temporary investment impairments	$ -	$ -	$ 142	$ 88
Sale/exchange of various securities (1)	(209)	(129)	-	-
Other financial instrument activity	(100)	(62)	-	-
Income from discontinued operations	-	-	1,256	775
Total recognition of previously unrealized (gains) losses	$ (309)	$ (191)	$1,398	$ 863

(1) 2003 includes a $0.2 billion pretax gain associated with the redemption of exchangeable notes that were indexed to ATTWireless common stock.

5. ACCESS AND OTHER CONNECTION

In September 2003, in conjunction with our review of accounting and internal control systems, the Company determined that the liability on the balance sheet (included in accounts payable) relating to costs incurred in 2001 and 2002 pertaining to access and other connection expense was understated by $125 million. Since the impact to prior years' annual financial statements was not material, the Company recorded an additional expense of $125 million ($77 million after-tax) in the third quarter of 2003 to reflect the proper estimate of the liability.

A review was conducted by outside legal counsel, under the direction of the Audit Committee. This review found that two employees, one lower-level and one mid-level management employee, circumvented the internal controls process, resulting in the financial impacts noted below. The Company made the appropriate personnel changes and enhanced its internal controls accordingly.

The expense, properly recorded in the respective periods, would have impacted quarterly and annual income from continuing operations as follows:

Impact: (Decrease)/Increase	Income From Continuing Operations	Earnings Per Diluted Share--Continuing Operations
	Dollars in millions (except per share amounts)	
For the Three Months Ended:		
September 30, 2001	$ (33)	$ (0.04)
December 31, 2001	$ 1	$ 0.01
March 31, 2002	$ (64)	$ (0.08)
June 30, 2002	$ 12	$ 0.02
September 30, 2002	$ 14	$ 0.01
December 31, 2002	$ (7)	$ (0.01)
For the Year Ended:		
December 31, 2001	$ (32)	$ (0.04)
December 31, 2002	$ (45)	$ (0.06)

6. EARNINGS PER COMMON SHARE AND POTENTIAL COMMON SHARE

On November 18, 2002, a 1-for-5 reverse stock split of AT&T common stock, as approved by shareowners on July 10, 2002, was effected. Shares (except shares authorized) and per share amounts were restated to reflect the stock split on a retroactive basis.

Basic earnings per common share (EPS) is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution (considering the combined income and share impact) that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The potential issuance of common stock is assumed to occur at the beginning of the year (or at time of issuance if later), and the incremental shares are included using the treasury stock method. The proceeds utilized in applying the treasury stock method consist of the amount, if any, the employee must pay upon exercise, the amount of compensation cost attributed to future service not yet recognized, and any tax benefits credited to paid-in-capital related to the exercise. These proceeds are then assumed to be used by the Company to purchase common stock at the average market price during the period. The incremental shares (difference between the shares assumed to be issued and the shares assumed to be purchased), to the extent they would have been dilutive, are included in the denominator of the diluted EPS calculation.

A reconciliation of the share components for basic to diluted EPS is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Shares in millions			
Weighted-average common shares	789	770	787	736
Effect of dilutive securities:				
Stock options	2	-	1	1
Preferred stock of subsidiary	-	-	-	4
Convertible quarterly income preferred securities	-	18	-	18
Weighted-average common shares and potential common shares	791	788	788	759

For the three and nine months ended September 30, 2003 and 2002, no adjustments were made to income for the computation of diluted EPS.

Preferred Stock of Subsidiary
Pursuant to the AT&T Broadband and Comcast merger agreement, AT&T was required to redeem the outstanding TCI Pacific Communications, Inc. Class A Senior Cumulative Exchangeable Preferred Stock (TCI Pacific preferred stock) for AT&T common stock. All outstanding shares of TCI Pacific preferred stock were either exchanged or redeemed for AT&T common stock during 2001 and 2002. Dividends were included in "Net (loss) from discontinued operations" for 2002.

Convertible Quarterly Income Preferred Securities
On June 16, 1999, AT&T Finance Trust I, a wholly owned subsidiary of AT&T, completed the private sale of 100 million shares of 5.0% cumulative quarterly income preferred securities (quarterly preferred securities) to Microsoft Corporation. Such securities were convertible into AT&T common stock. However, in connection with the AT&T Broadband spin-off, Comcast assumed the quarterly preferred securities and Microsoft agreed to convert these preferred securities into shares of Comcast common stock. Dividends were included in "Net (loss) from discontinued operations" for 2002.

7. NET RESTRUCTURING AND OTHER CHARGES

For the three months ended September 30, 2003, net restructuring and other charges of $64 million consisted of $75 million of costs associated with the Company's management realignment efforts (involuntarily impacting approximately 800 mid-level managers), primarily representing separation costs, partially offset by the reversal of $11 million of sales obligation liabilities recorded in a prior year, associated with the disposition of AT&T Communications (U.K.) Ltd, where the liabilities incurred were below the original estimate. This quarter's business restructuring activity reflects the next step towards completion of the Company's initiative to streamline its management structure, which is expected to be completed by the end of 2003.

Net restructuring and other charges of $134 million for the nine months ended September 30, 2003, consists of costs associated with the Company's management realignment efforts, primarily separation costs. These exit plans involuntarily impacted approximately 900 managers across the Company, almost 30% of which have exited the business as of September 30, 2003, with substantially all of the remainder expected to be off roll by the end of 2003. These activities were partially offset by the reversal of $11million of sales obligation liabilities recorded in a prior year, associated with the disposition of AT&T Communications (U.K.) Ltd, where the liabilities incurred were below the original estimate.

The following table displays the activity and balances of the restructuring reserve account:

	Type of Cost			
	Employee Separations	Facility Closings	Other	Total
	Dollars in millions			
Balance at January 1, 2003	$ 379	$ 283	$ 3	$ 665
Additions	124	-	-	124
Deductions	(300)	(60)	(1)	(361)
Balance at September 30, 2003	$ 203	$ 223	$ 2	$ 428

Deductions primarily reflect cash payments, which included cash termination benefits of $285 million, funded primarily through cash from operations.

For the three and nine months ended September 30, 2002, AT&T recorded a net reversal of $26 million of net restructuring and other charges. At that time, AT&T's management reevaluated the business restructuring plan established in the fourth quarter of 2001 and determined that the plan needed to be modified, primarily for certain areas of AT&T Business Services, including network services, given the industry conditions at that time, as well as the redeployment of certain employees to different functions within the Company. As a result, approximately $137 million of net restructuring and other charges were reversed, which primarily consisted of $110 million for employee separation costs. The reversals also included $12 million of sales obligation liabilities recorded in a prior year associated with the disposition of AT&T Communications (U.K.) Ltd, where the liabilities incurred were below the original estimate. AT&T's management developed a new exit plan to ensure proper management of our cost structure in other areas of AT&T Business Services, including network services, with an offsetting additional charge of $111 million. This plan primarily consisted of $91 million for employee separation costs and $16 million for facility closings related to buildings becoming vacant as a result of previously announced restructuring plans. Of the 1,400 employees affected by this exit plan, slightly more than half were management employees and 17% left voluntarily.

Relative to the business restructuring reserves recorded during the third and fourth quarters of 2002, approximately 70% of the employees affected by these exit plans have left their positions as of September 30, 2003, with the remaining reductions to occur by the end of 2003.

8. DISCONTINUED OPERATIONS

NCR CORPORATION

Net (loss) from discontinued operations for the three and nine months ended September 30, 2003, reflects an estimated cost related to potential legal liabilities for certain environmental clean-up matters associated with NCR Corporation (NCR), which was spun-off from AT&T in 1996. NCR has been formally notified by federal and state agencies that it is a potentially responsible party (PRP) for environmental claims under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and other statutes arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay, in Wisconsin. NCR was identified as a PRP because of alleged PCB discharges from two carbonless copy paper manufacturing facilities it previously owned, which were located along the Fox River. In July 2003, the government clarified its planned approach for remediation of the contaminated sediments, which caused NCR to increase its estimated liability. Under the separation and distribution agreement between AT&T and NCR, AT&T is required to pay a portion of such costs that NCR incurs above a certain threshold. Therefore, in the third quarter of 2003, AT&T recorded its estimated proportionate share of certain costs associated with the Fox River matter, which totaled $13 million on both, a pretax and after-tax basis. The extent of NCR's potential liability is subject to numerous variables that are uncertain at this time, including the actual remediation costs and the percentage NCR may ultimately be responsible for. As a result, AT&T's actual liability may be different than the estimated amount. Pursuant to the separation and distribution agreement, NCR is liable for the first $100 million of costs in connection with this liability. AT&T is liable for 37% of costs incurred by NCR beyond such $100 million threshold. All such amounts are determined after reduction of any monies collected by NCR from other parties.

AT&T BROADBAND

AT&T Broadband, composed primarily of the AT&T Broadband segment, was spun-off to AT&T shareowners on November 18, 2002, and simultaneously combined with Comcast Corporation (Comcast). Pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," AT&T Broadband was accounted for as a discontinued operation. In accordance with SFAS No. 144, prior period financial statements have been restated to reflect AT&T Broadband as a discontinued operation in all periods. As a discontinued operation, the revenue, expenses and cash flows of AT&T Broadband have been excluded from the respective captions in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and have been reported through the date of separation within "Net (loss) from discontinued operations" and as "Net cash (used in) discontinued operations."

Revenue for AT&T's Broadband business was $2,547 million and $7,512 million for the three and nine months ended September 30, 2002, respectively. Net (loss) from discontinued operations before income taxes was $(399) million [$(318) million after-tax] for the three months ended September 30, 2002, and $(20,071) million [$(14,228) million after-tax] for the nine months ended September 30, 2002. For the three and nine months ended September 30, 2002, interest expense of $114 million and $287 million, respectively, was allocated to discontinued operations based on the balance of intercompany debt between AT&T Broadband and AT&T.

LUCENT TECHNOLOGIES INC.

Net (loss) from discontinued operations for the three and nine months ended September 30, 2002, included an estimated loss on a litigation settlement associated with the business of Lucent Technologies Inc. (Lucent), which was spun-off from AT&T in 1996. Sparks, et al. v. AT&T and Lucent. et al., was a class action lawsuit filed in 1996 in Illinois state court. On August 9, 2002, a settlement proposal was submitted to and accepted by the court. In accordance with the separation and distribution agreement between AT&T and Lucent, AT&T's estimated proportionate share of the settlement and legal costs recorded in the second quarter of 2002 totaled $132 million pretax ($88 million after-tax). (In the fourth quarter of 2002, this initial estimate was reduced to $45 million [$33 million after-tax]).

Depending upon the number of claims submitted and accepted, the actual cost of the settlement to AT&T may be different than amounts accrued as of September 30, 2003. While similar consumer class actions are pending in various state courts, the Illinois state court has held that the class it certified covers claims in the other state court class actions.

9. INVESTMENTS

AT&T CANADA

AT&T had an approximate 31% ownership interest in AT&T Canada. Pursuant to a 1999 merger agreement, AT&T had a commitment to purchase, or arrange for another entity to purchase, the publicly-owned shares of AT&T Canada for the Back-end Price, which was the greater of a contractual floor price or the fair market value. The floor price accreted 4% each quarter, commencing on June 30, 2000.

In 2001, AT&T recorded charges reflecting the difference between the underlying value of publicly owned AT&T Canada shares and the price AT&T had committed to pay for them, including the 4% accretion of the floor price. In the nine months ended September 30, 2002, AT&T recorded charges of $0.3 billion after-tax ($0.5 billion pretax) within "Net (losses) earnings related to equity investments," reflecting further deterioration in the underlying value of AT&T Canada as well as accretion of the floor price.

During 2002, AT&T arranged for third parties (Tricap Investment Corporation and CIBC Capital Partners) to purchase the remaining 69% equity in AT&T Canada. As part of this agreement, AT&T agreed to fund the purchase price on behalf of the third parties. Tricap and CIBC Partners made a nominal payment to AT&T upon completion of the purchase in October 2002. Although AT&T held an equity interest in AT&T Canada throughout 2002, it did not record equity earnings or losses since its investment balance was written down to zero largely through losses generated by AT&T Canada. As of September 30, 2003, AT&T had disposed of all of its AT&T Canada shares.

Summarized financial information for the three and nine months ended September 30, 2002, for this investment accounted for under the equity method was as follows:

	For the Three Months Ended September 30, 2002	For the Nine Months Ended September 30, 2002
	Dollars in millions	
Revenue	$ 232	$ 719
Operating income (loss)	5	(869)
(Loss) from continuing operations before extraordinary items and cumulative effect of accounting changes	(163)	(1,215)
Net (loss)	(163)	(2,194)

CONCERT

On April 1, 2002, Concert, our 50% owned joint venture with British Telecommunications plc (BT), was unwound and the venture's assets and customer accounts were distributed back to the parent companies, as agreed to in 2001. Under the partnership termination agreement, each of the partners generally reclaimed the customer contracts and assets that were initially contributed to the joint venture, including international transport facilities and gateway assets. In addition, AT&T assumed certain other assets that BT originally contributed to the joint venture. In conjunction with the unwind of Concert, AT&T paid BT $158 million in the first quarter of 2003. In the second quarter of 2003, a $28 million after-tax benefit ($45 million pretax) was recorded within "Net (losses) earnings related to equity investments" due to the favorable settlement of certain items in connection with the Concert unwind.

AT&T had various related party transactions with Concert until the joint venture was unwound on April 1, 2002. Included in "Revenue" was $268 million for services provided to Concert for the nine months ended September 30, 2002. Included in "Access and other connection" expense are charges from Concert representing costs incurred on our behalf to connect calls made to foreign countries (international settlements) and costs paid by AT&T to Concert for distributing Concert products totaling $491 million for the nine months ended September 30, 2002.

AT&T Wireless

In February 2003, AT&T redeemed exchangeable notes that were indexed to AT&T Wireless common stock. The notes were settled with 78.6 million shares of AT&T Wireless common stock and $152 million in cash (see note 10). Also in February, AT&T sold its remaining investment in AT&T Wireless (approximately 12.2 million shares) for $72 million, resulting in a gain of $22 million recorded in "Other (expense) income, net."

10. DEBT OBLIGATIONS

LONG-TERM DEBT

On January 31, 2003, AT&T completed the early retirement of $1,152 million and $2,590 million long-term notes, with interest rates of 6.375% and 6.50%, due in March 2004 and March 2013, respectively. The notes were repurchased with cash and resulted in a loss of $178 million recorded in "Other (expense) income, net."

On September 15, 2003, AT&T completed the early retirement of $322 million and $184 million long-term notes, with an interest rate of 8.125%, due in January 2022 and July 2024, respectively. The notes were repurchased with cash and resulted in a loss of $23 million recorded in "Other (expense) income, net."

On October 22, 2003, AT&T completed the early retirement of three long-term notes totaling approximately $1.1 billion (as previously called for early redemption on September 22, 2003). The first note of $236 million, had an interest rate of 8.625%, and was due in December 2031. The other two notes, with $410 million and $439 million of principal amounts outstanding, bore interest rates of 5.625% and 6.375%, respectively, and were each due in March 2004. The notes were repurchased with cash and resulted in a loss of $32 million recorded in "Other (expense) income, net."

In September 2003, AT&T gave notice to exercise its purchase option on buildings we lease, which were consolidated in July along with debt of approximately $477 million, as a result of our adoption of FIN 46 (see note 3). A $28 million loss on the early extinguishment of debt was recorded in "Other (expense) income, net."

EXCHANGEABLE NOTES

During 2001, we issued long-term debt (exchangeable notes) that was indexed to AT&T Wireless common stock and, at AT&T's option, was mandatorily redeemable with a number of shares of AT&T Wireless common stock that was equal to the underlying shares multiplied by an exchange ratio, or its cash equivalent. The notes were accounted for as indexed debt instruments, because the carrying value of the debt was dependent upon the fair market value of the underlying securities. In addition, the notes contained embedded derivatives, which were designated as cash flow hedges and required separate accounting. These designated options were carried at fair value with changes in fair value recorded, net of income taxes, within "Accumulated other comprehensive (loss)," a component of shareowners' equity.

The shares of AT&T Wireless common stock were accounted for as "available-for-sale" securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," with changes in the carrying value of the underlying securities that are not "other-than-temporary" being recorded as unrealized gains or losses, net of income taxes, within "Accumulated other comprehensive (loss)," a component of shareowners' equity.

In February 2003, AT&T redeemed these exchangeable notes with 78.6 million shares of AT&T Wireless common stock and $152 million in cash. The settlement resulted in a pretax gain of approximately $176 million recorded in "Other (expense) income, net." The noncash impacts of this transaction include the use of $0.5 billion of our investment in AT&T Wireless to settle long-term debt.

11. FINANCIAL INSTRUMENTS

In the normal course of business, we use various financial instruments, including derivative financial instruments, for purposes other than trading. These instruments include letters of credit, guarantees of debt and certain obligations of former affiliates, interest rate swap agreements, foreign currency exchange contracts, option contracts, equity contracts and warrants.

Interest Rate Swap Agreements

We enter into interest rate swaps to manage our exposure to changes in interest rates. We enter into swap agreements to manage the fixed/floating mix of our debt portfolio in order to reduce aggregate risk of interest rate movements. These agreements involve the exchange of floating-rate for fixed-rate payments or the exchange of fixed-rate for floating-rate payments without the exchange of the underlying notional amount. Floating-rate payments and receipts are primarily tied to the LIBOR (London Inter-Bank Offered Rate). In 2003, we entered into $1.0 billion of notional fixed-to-floating interest rate swaps, which we designated as fair value hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. The weighted-average receive rate and pay rate for these swaps at September 30, 2003, was 4.23% and 2.55%, respectively.

In addition, we have combined interest rate, foreign currency swap agreements for foreign-currency-denominated debt, which hedge our risk to both interest rate and currency movements. The fair value of such arrangements has increased $514 million since December 31, 2002, to $1,174 million at September 30, 2003, primarily due to the strength of the Euro currency compared with the U.S. dollar.

In connection with the combined interest rate swap agreements, as of September 30, 2003, we had received $200 million of cash collateral (included in "Cash" in the Consolidated Balance Sheet) and $10 million of security collateral (included in "Other current assets" in the Consolidated Balance Sheet).

Debt Securities

As of September 30, 2003, the carrying value of our long-term debt (including currently maturing long-term debt), excluding capital leases, was $15.9 billion. The market value associated with this debt was $17.5 billion. The carrying value of debt with an original maturity of less than one year approximates market value. The fair values of long-term debt were obtained based on quotes for these securities.

12. EQUITY TRANSACTIONS

Pursuant to the AT&T Broadband and Comcast merger agreement, AT&T was required to redeem the outstanding TCI Pacific Communications, Inc. Class A Senior Cumulative Exchangeable Preferred Stock for AT&T common stock. Each share of TCI Pacific preferred stock was exchangeable, at the option of the holder, for 1.673 shares of AT&T common stock. As of June 30, 2002, all outstanding shares (approximately 6.2 million) of TCI Pacific preferred stock were either exchanged or redeemed for approximately 10.4 million shares of AT&T common stock. No gain or loss was recorded on the exchange/redemption of the TCI Pacific preferred stock.

During 2002, AT&T issued 2.9 million shares of AT&T common stock to certain current and former senior managers in settlement of their deferred compensation accounts. Approximately 2.8 million shares were issued in the second quarter of 2002 and 0.1 million shares in the third quarter of 2002. Pursuant to AT&T's deferred compensation plan, senior managers may defer short- and long-term incentive compensation awards. The issuance of these shares resulted in an increase to total shareowners' equity of $0.2 billion.

In June 2002, AT&T completed a public equity offering of 46 million shares of AT&T common stock for net proceeds of $2.5 billion. AT&T utilized the proceeds from the offering to satisfy a portion of its obligation to AT&T Canada common shareholders (see note 9).

13. COMMITMENTS AND CONTINGENCIES

In connection with the separation of its former subsidiaries, AT&T has entered into a number of separation and distribution agreements that provide, among other things, for the allocation and/or sharing of certain costs associated with potential litigation liabilities. For example, pursuant to these agreements, AT&T shares in the cost of certain litigation if the settlement exceeds certain thresholds. With the exception of two matters already reserved for (Sparks, et al. v. AT&T Lucent Technologies and NCR's Fox River environmental clean-up matter, see note 8), we have assessed that none of the litigation liabilities allocated to former subsidiaries were probable of incurring costs in excess of the threshold above which we would be required to share in the costs. However, in the event these former subsidiaries were unable to meet their obligations with respect to these liabilities due to financial difficulties, AT&T could be held responsible for all or a portion of the costs, irrespective of the sharing agreements.

In October 2003, the Federal Communications Commission (FCC) found that AT&T violated Section 203 of the Communications Act of 1934 (Act) for refusing to transfer the customers of one reseller to the service plans of another reseller. The actions which gave rise to this finding were the subject of a lawsuit filed in March 1995 in the United States District Court for the District of New Jersey by Combined Companies, Inc, Winback & Conserve, One Stop Financial, 800 Discounts and Group discounts, Inc. against AT&T. AT&T intends to appeal this decision, as it believes its actions were consistent with its obligations under the Act. In addition, AT&T's liability in this matter is subject to the plaintiff proving it sustained damages and demonstrating the amount to which it claims to be entitled. Thus, the extent of liability cannot be estimated at this time. In the original lawsuit plaintiff had sought an injunction requiring AT&T to transfer customers from one reseller to another. Plaintiff has not filed an amended complaint asserting damages.

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at September 30, 2003. However, we believe that after final disposition, any monetary liability or financial impact to us beyond that provided for at September 30, 2003, would not be material to our annual consolidated financial statements.

LEASES AND OTHER COMMITMENTS

Under certain real estate operating leases (with entities consolidated as a result of FIN 46, see note 3), AT&T could have been required to make payments to the lessors of up to $427 million at the end of the lease term. In September 2003, AT&T gave notice to exercise its purchase options under these leases. As a result of the exercise of these options, AT&T will no longer have a potential payment requirement.

14. SEGMENT REPORTING

AT&T's results are segmented according to the customers we service: AT&T Business Services and AT&T Consumer Services. AT&T evaluates performance based on several factors, of which the primary financial measure is operating income.

Our existing segments reflect certain managerial changes that were implemented during 2003. The changes primarily include a redistribution of property, plant and equipment from the Corporate and Other group to AT&T Business Services and a transfer of deferred taxes from AT&T Consumer Services to the Corporate and Other group.

AT&T Business Services provides a variety of communication services to various sized businesses and government agencies including long distance, international, toll-free and local voice, including wholesale transport services, as well as data services and Internet protocol and enhanced (IP&E) services, which includes the management of network servers and applications. AT&T Business Services also provides outsourcing solutions and other professional services.

AT&T Consumer Services provides a variety of communication services to residential customers. These services include traditional long distance voice services, such as domestic and international dial services (long distance or local toll calls where the number "1" is dialed before the call), calling card services and dial-up Internet. Transaction services, such as prepaid card and operator-assisted calls, are also offered. Collectively these services represent stand-alone long distance and are not offered in conjunction with any other service. AT&T Consumer Services also provides all distance services, which bundle long distance, local and local toll.

The balance of AT&T's continuing operations is included in a "Corporate and Other" group. This group primarily reflects corporate staff functions and the elimination of transactions between segments.

Total assets for our reportable segments include all assets, except intercompany receivables. AT&T prepaid pension assets, taxes and corporate-owned or leased real estate are generally held at the corporate level and therefore are included in the Corporate and Other group. Capital additions for each segment include capital expenditures for property, plant and equipment, additions to nonconsolidated investments and additions to internal-use software (which are included in "Other assets").

AT&T Business Services sells services to AT&T Consumer Services at cost-based prices. Generally, AT&T Business Services accounts for these sales as contra-expense.

REVENUE

	For the Three Months Ended September 30, 2003	For the Three Months Ended September 30, 2002	For the Nine Months Ended September 30, 2003	For the Nine Months Ended September 30, 2002
	Dollars in millions			

ATTBusiness Services external revenue	$ 6,282	$ 6,602	$ 19,125	$ 19,697
ATTBusiness Services internal revenue	-	98	-	273
Total ATTBusiness Services revenue	6,282	6,700	19,125	19,970
ATTConsumer Services external revenue	2,353	2,794	7,265	8,791
Total reportable segments	8,635	9,494	26,390	28,761
Corporate and Other	14	(85)	40	(224)
Total revenue	$ 8,649	$ 9,409	$ 26,430	$ 28,537

RECONCILIATION OF OPERATING INCOME TO INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST INCOME, AND NET (LOSSES) EARNINGS RELATED TO EQUITY INVESTMENTS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
ATTBusiness Services operating income	$ 417	$ 854	$ 1,614	$ 2,577
ATTConsumer Services operating income	500	595	1,621	2,203
Total reportable segments operating income	917	1,449	3,235	4,780
Corporate and Other operating (loss)	(88)	(34)	(211)	(139)
Operating income	829	1,415	3,024	4,641
Other (expense) income, net	(7)	(180)	89	(285)
Interest (expense)	(289)	(355)	(917)	(1,087)
Income from continuing operations before income taxes, minority interest income, and net (losses) earnings related to equity investments	$ 533	$ 880	$ 2,196	$ 3,269

ASSETS

	At September 30, 2003	At December 31, 2002
	Dollars in millions	
ATTBusiness Services assets	$ 34,951	$ 36,389
ATTConsumer Services assets	1,095	1,390
Total reportable segments assets	36,046	37,779
Corporate and Other assets*	15,261	17,493
Total assets	$ 51,307	$ 55,272

* Includes cash of $6.4 billion at September 30, 2003, and $7.8 billion at December 31, 2002.

Geographic information is not presented due to the immateriality of revenue attributable to international customers.

Reflecting the dynamics of our business, we continually review our management model and structure, which may result in additional adjustments to our operating segments in the future.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATONS

AT&T CORP. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

AT&T Corp. (AT&T or the Company) is among the world's communications leaders, providing voice and data communications services to large and small businesses, consumers and government agencies. We provide domestic and international long distance, regional and local communications services, and data and Internet communications services.

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements with respect to AT&T's financial condition, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies or synergies, budgets, capital and other expenditures, network build-out and upgrade, competitive positions, availability of capital, growth opportunities for existing products, benefits from new technologies, availability and deployment of new technologies, plans and objectives of management, and other matters.

These forward-looking statements, including, without limitation, those relating to the future business prospects, revenue, working capital, liquidity, capital needs, network build-out, interest costs and income, are necessary estimates reflecting the best judgment of senior management that rely on a number of assumptions concerning future events, many of which are outside AT&T's control, and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements including, without limitation:

|X| the impact of existing and new competitors in the markets in which AT&T competes, including competitors that may offer less expensive products and services, desirable or innovative products, technological substitutes, or have extensive resources or better financing,

|X| the impact of oversupply of capacity resulting from excessive deployment of network capacity,

|X| the ongoing global and domestic trend toward consolidation in the telecommunications industry, which may have the effect of making the competitors of these entities larger and better financed and afford these competitors with extensive resources and greater geographic reach, allowing them to compete more effectively,

|X| the effects of vigorous competition in the markets in which the Company operates, which may decrease prices charged, increase churn and change customer mix and profitability,

|X| the ability to establish a significant market presence in new geographic and service markets,

|X| the requirements imposed on the Company or latitude allowed to competitors by the Federal Communications Commission (FCC) or state regulatory commissions under the Telecommunications Act of 1996 or other applicable laws and regulations,

|X| the risks associated with technological requirements, wireless, Internet or other technology substitution and changes and other technological developments,

|X| the results of litigation filed or to be filed against the Company, and

|X| the possibility of one or more of the markets in which the Company competes being impacted by changes in political, economic or other factors, such as monetary policy, legal and regulatory changes or other external factors over which the Company has no control.

The words "estimate," "project," "intend," "expect," "believe," "plan" and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this document is filed. Moreover, in the future, AT&T, through its senior management, may make forward-looking statements about the matters described in this document or other matters concerning AT&T.

The discussion and analysis that follows provides information management believes is relevant to an assessment and understanding of AT&T's consolidated results of operations for the three and nine months ended September 30, 2003, and 2002, and financial condition as of September 30, 2003, and December 31, 2002.

Critical Accounting Estimates and Judgments

AT&T's financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Management continually evaluates its estimates and judgments including those related to useful lives of plant and equipment, pension and other postretirement benefits, income taxes and legal contingencies. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion of significant accounting policies that may involve a higher degree of judgment, please refer to AT&T's Form 10-K for the year ended December 31, 2002.

CONSOLIDATED RESULTS OF OPERATIONS

The comparison of 2003 results with 2002 results was impacted by the April 1, 2002 unwind of Concert, our joint venture with British Telecommunications plc (BT). The venture's assets and customer accounts were distributed back to the parent companies. Under the partnership termination agreement, each of the partners generally reclaimed the customer contracts and assets that were initially contributed to the joint venture, including international transport facilities and gateway assets. In addition, AT&T assumed certain other assets that BT originally contributed to the joint venture. As a result, the results for the second and third quarters of 2002 and year-to-date 2003 include revenue and expenses associated with these customers and businesses, while the period of January 1, 2002 through March 31, 2002 includes our proportionate share of Concert's earnings and related charges in "Net (losses) earnings related to equity investments."

During 2002, AT&T's interest in AT&T Latin America was fully consolidated in AT&T's results. In December 2002, AT&T signed a non-binding term-sheet for the sale of its 69% economic interest (95% voting interest) in AT&T Latin America and began accounting for AT&T Latin America as an asset held for sale (the operations of AT&T Latin America did not qualify for treatment as a discontinued operation). As a result of this action, in the fourth quarter of 2002 we wrote down AT&T Latin America's assets and liabilities to fair value and reclassified these assets and liabilities to "Other current assets" and "Other current liabilities" at December 31, 2002. The operating losses of AT&T Latin America for the first half of 2003 are reflected in "Net restructuring and other charges." On April 21, 2003, AT&T Latin America filed for Chapter 11 bankruptcy and on June 30, 2003, the AT&T appointed members of the AT&T Latin America Board of Directors resigned. They were replaced with three new independent directors. This action resulted in the deconsolidation of AT&T Latin America as of June 30, 2003.

The consolidated financial statements of AT&T reflect AT&T Broadband as a discontinued operation. AT&T Broadband was spun-off to AT&T shareowners on November 18, 2002, and simultaneously combined with Comcast Corporation. Accordingly, the revenue, expenses and cash flows of AT&T Broadband have been excluded from the respective captions in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and have been reported as "Net (loss) from discontinued operations" and as "Net cash (used in) discontinued operations" for all applicable periods.

Revenue

	For the Three Months Ended September 30, 2003	2002	For the Nine Months Ended September 30, 2003	2002
	Dollars in millions			
ATTBusiness Services	$ 6,282	$ 6,700	$ 19,125	$ 19,970
ATTConsumer Services	2,353	2,794	7,265	8,791
Corporate and Other	14	(85)	40	(224)
Total revenue	$ 8,649	$ 9,409	$ 26,430	$ 28,537

Total revenue decreased $0.8 billion, or 8.1%, in the third quarter of 2003, compared with the third quarter of 2002, and decreased $2.1 billion, or 7.4%, in the nine months ended September 30, 2003, compared with the nine months ended September 30, 2002. The declines were driven by continued declines in stand-alone long distance voice revenue of approximately $1.0 billion for the third quarter of 2003, and $2.9 billion for the nine months ended September 30, 2003, compared with the respective prior year periods. The declines in stand-alone long distance voice revenue reflect competition, which has led to lower prices and loss of market share, the impact of substitution by consumers and a decline in business retail volumes, partially offset by strength in business wholesale volumes. Total long distance voice volumes (including long distance volumes sold as part of a bundled product) increased about 6% for the third quarter of 2003, and increased about 5% for the nine months ended September 30, 2003, compared with the same periods of 2002, as growth in lower-priced business wholesale more than offset the declines in business retail and traditional consumer long distance volumes.

Partially offsetting the decreases in stand-alone long distance voice revenue were increases in bundled services revenue (local and long distance) at AT&T Consumer Services of approximately $0.2 billion for the third quarter of 2003, and $0.7 billion for the nine months ended September 30, 2003, compared with the respective prior year periods. In addition, AT&T Business Services experienced increases in local services revenue of $0.1 billion in the third quarter of 2003, and $0.3 billion for the nine months ended September 30, 2003, compared with the respective prior year periods.

Revenue by segment is discussed in greater detail in the Segment Results section.

Operating Expenses

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Access and other connection	$ 2,785	$ 2,679	$ 8,191	$ 8,214
Costs of services and products	1,954	2,066	5,923	6,166
Selling, general and administrative	1,793	2,032	5,551	5,911
Depreciation and amortization	1,224	1,243	3,607	3,631
Net restructuring and other charges	64	(26)	134	(26)
Total operating expenses	$ 7,820	$ 7,994	$ 23,406	$ 23,896
Operating income	$ 829	$ 1,415	$ 3,024	$ 4,641
Operating margin	9.6%	15.0%	11.4%	16.3%

Included within ACCESS AND OTHER CONNECTION EXPENSES are costs we pay to connect calls using the facilities of other service providers, as well as the Universal Service Fund contributions and per-line charges mandated by the FCC. Costs paid to telephone companies outside of the United States to connect international calls are also included within access and other connection expenses.

Access and other connection expenses increased 4.0%, or $0.1 billion, in the third quarter of 2003 and decreased 0.3%, or $23 million, for the nine months ended September 30, 2003, compared with the same periods of 2002. Domestic access charges for the third quarter and year-to-date period included a $125 million access expense adjustment to reflect the proper estimate of liability relating to access costs incurred in 2001 and 2002 (see note 5). Excluding this adjustment, domestic access charges declined $0.1 billion for the third quarter and $0.4 billion for the year-to-date period. These declines were primarily due to lower Universal Service Fund contributions and per-line charges of $0.1 billion for the quarter and $0.3 billion for the year-to-date period primarily resulting from the decline in long distance voice revenue. In addition, the declines were due to more efficient network usage and product mix aggregating $0.2 billion for the third quarter and $0.3 billion for the year-to-date period. These declines in domestic access charges were partially offset by higher costs of $0.1 billion for the quarter and $0.2 billion for the year-to-date period as a result of overall long distance volume growth. Also contributing to the decline in access and other connection expenses for the year-to-date period were lower international connection charges of $0.1 billion as a result of lower rates as well as the reintegration of customers and assets from the unwind of Concert. These declines were partially offset by an increase in local connectivity costs of $0.1 billion for the quarter and $0.4 billion for the year-to-date period, primarily as a result of new state entries and subscriber increases.

Since most of the Universal Service Fund contributions, and per-line charges are passed through to the customer, these reductions generally result in a corresponding reduction in revenue.

COSTS OF SERVICES AND PRODUCTS include costs of operating and maintaining our networks, costs to support our outsourcing contracts, the provision for uncollectible receivables and other service-related costs, including cost of equipment sold.

Costs of services and products decreased $0.1 billion, or 5.4%, in the third quarter of 2003 and $0.2 billion, or 3.9%, in the first nine months of 2003, compared with comparable prior year periods. The declines were primarily driven by the overall impact of lower revenue and the related costs, a lower provision for uncollectibles, as well as by the deconsolidation of AT&T Latin America. These declines were partially offset by the impact of a weak U.S. dollar. Additionally, the decrease for the nine months ended September 30, 2003, was partially offset by increased costs as a result of the reintegration of customers and assets from the unwind of Concert.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES decreased $0.2 billion, or 11.8%, in the third quarter of 2003 and $0.4 billion, or 6.1%, in the nine months ended September 30, 2003, compared with the corresponding periods in 2002. The decreases were driven by approximately $0.2 billion for the quarter and $0.3 billion for the year-to-date period of lower expenses due to reduced volumes at AT&T Consumer Services resulting from a reduction in the number of residential customers, as well as overall cost control efforts. The year-to-date decrease was also driven by $0.1 billion of lower long distance and brand advertising and promotional spending, partially offset by $0.1 billion of increased marketing, customer care and sales expenses associated with new local service offerings by AT&T Consumer Services.

DEPRECIATION AND AMORTIZATION EXPENSES decreased $19 million, or 1.5%, in the third quarter of 2003, compared with the third quarter of 2002, and decreased $24 million, or 0.7%, in the nine months ended September 30, 2003, compared with the corresponding period in 2002. The decreases were primarily due to the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," and lower depreciation associated with our AT&T Latin America subsidiary, which was classified as an asset held for sale in December 2002. These declines were largely offset by an increase in the asset base. Total capital expenditures were $1.2 billion and $1.0 billion for the three months ended September 30, 2003 and 2002, respectively, and were $2.7 billion and $2.6 billion for the nine months ended September 30, 2003 and 2002, respectively. These amounts include $0.4 billion recorded in the third quarter of 2003 in connection with the adoption of Financial Accounting Standards Board Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51." We continue to focus the majority of our capital spending on Internet protocol & enhanced services (IP&E services) and data services, both of which include managed services, as well as local voice services.

In the third quarter of 2003, NET RESTRUCTURING AND OTHER CHARGES of $64 million consisted of $75 million of costs associated with the Company's management realignment efforts (involuntarily impacting approximately 800 mid-level managers), primarily representing separation costs, partially offset by the reversal of $11 million of sales obligation liabilities recorded in a prior year, associated with the disposition of AT&T Communications (U.K.) Ltd, where the liabilities incurred were below the original estimate. This quarter's business restructuring activity reflects the next step towards completion of the Company's initiative to streamline its management structure, which is expected to be completed by the end of 2003. The completion of these activities will require AT&T to record an additional charge in the fourth quarter of 2003. However, it is anticipated that it will be lower than the charge recorded in the third quarter of 2003.

Net restructuring and other charges of $134 million for the nine months ended September 30, 2003, consists of costs associated with the Company's management realignment efforts, primarily separation costs. These exit plans involuntarily impacted approximately 900 managers across the company, almost 30% of which have exited the business as of September 30, 2003, with substantially all of the remainder expected to be off roll by the end of 2003. These activities were partially offset by the reversal of $11 million of sales obligation liabilities recorded in a prior year, associated with the disposition of AT&T Communications (U.K.) Ltd, where the liabilities incurred were below the original estimate. The exit plans are not expected to yield cash savings (net of severance benefit payouts) or a benefit to operating income (net of the restructuring charge recorded) in 2003, however, we expect to realize approximately $225 million of cash savings and benefit to operating income in subsequent years, when the exit plan is completed.

For the three and nine months ended September 30, 2002, AT&T recorded a net reversal of $26 million of net restructuring and other charges. At that time, AT&T's management reevaluated the business restructuring plan established in the fourth quarter of 2001 and determined that the plan needed to be modified, primarily for certain areas of AT&T Business Services, including network services, given the industry conditions at that time, as well as the redeployment of certain employees to different functions within the Company. As a result, approximately $137 million of net restructuring and other charges were reversed, which primarily consisted of $110 million for employee separation costs. The reversals also included $12 million of sales obligation liabilities recorded in a prior year associated with the disposition of AT&T Communications (U.K.) Ltd, where the liabilities incurred were below the original estimate. AT&T's management developed a new exit plan to ensure proper management of our cost structure in other areas of AT&T Business Services, including network services, with an offsetting additional charge of $111 million. This plan primarily consisted of $91 million for employee separation costs and $16 million for facility closings related to buildings becoming vacant as a result of previously announced restructuring plans. Of the 1,400 employees affected by this exit plan, slightly more than half were management employees and 17% left voluntarily.

Relative to the business restructuring reserves recorded during the third and fourth quarters of 2002, approximately 70% of the employees affected by these exit plans have left their positions as of September 30, 2003, with the remaining reductions to occur by the end of 2003.

AT&T's OPERATING INCOME in the third quarter of 2003 decreased $0.6 billion, or 41.4%, compared with the third quarter of 2002. For the nine months ended September 30, 2003, AT&T's operating income declined $1.6 billion, or 34.8%, compared with the sameperiod in 2002. AT&T's operating margin was 9.6% in the third quarter of 2003 compared with 15.0% in the third quarter of 2002, and was 11.4% in the 2003 year-to-date period, compared with 16.3% in the 2002 year-to-date period. The margin declines were primarily due to the decline in revenue coupled with a lower rate of decline in related operating expenses reflecting pricing pressures, product substitution and a shift from higher-margin retail long distance services to lower-margin wholesale long distance service and other lower-margin services. In addition, the margins were negatively impacted by a $125 million access expense adjustment recorded in the third quarter of 2003.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Other (expense) income, net	$ (7)	$ (180)	$ 89	$ (285)

OTHER (EXPENSE) INCOME, NET, in the third quarter of 2003 was expense of $7 million compared with expense of $0.2 billion in the third quarter of 2002. The favorable variance of $0.2 billion was primarily due to impairments of $0.2 billion in the third quarter of 2002 related to certain leases of aircraft which are accounted for as leveraged leases. Additionally, investment-related income for the third quarter of 2003 increased compared with the comparable prior year period. Unfavorably impacting other (expense) income, net was a loss of $0.1 billion, associated with the early call of certain debt instruments.

Other (expense) income, net, in the nine months ended September 30, 2003, was income of $0.1 billion compared with expense of $0.3 billion in the nine months ended September 30, 2002. The favorable variance of $0.4 billion was primarily due to impairments of $0.2 billion in the third quarter of 2002 related to certain leases of aircraft, which are accounted for as leveraged leases and lower investment impairment charges of $0.1 billion, primarily driven by impairment charges recorded in 2002 for Time Warner Telecom. Also contributing to the favorable variance were gains related to mark-to-market adjustments on financial instruments recorded in 2003 versus losses in 2002 and increased investment-related income totaling $0.1 billion. Partially offsetting these favorable items was a $0.1 billion reserve recorded in 2003 related to certain leases of aircraft which are accounted for as leveraged leases. Also included in other (expense) income, net, in the first nine months of 2003 were losses of $0.3 billion associated with the early call and repurchase of long-term debt instruments. This loss was partially offset by a $0.2 billion gain, also in the first nine months of 2003, associated with the early retirement of exchangeable notes that were indexed to AT&T Wireless common stock.

We continue to hold investments in leveraged leases of commercial aircraft, which we lease to domestic airlines as well as aircraft related companies. Should the financial difficulties in the U.S, airline industry lead to further bankruptcies or lease restructurings, AT&T could be expected to record additional losses associated with its aircraft lease portfolio.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Interest (expense)	$ (289)	$ (355)	$ (917)	$(1,087)

INTEREST (EXPENSE) decreased 18.7%, or $0.1 billion, in the third quarter of 2003 compared with the third quarter of 2002, and decreased 15.7%, or $0.2 billion, in the nine months ended September 30, 2003 compared with the first nine months of 2002. The decrease was primarily due to a lower average debt balance in 2003 compared with 2002, reflecting our debt reduction efforts, slightly offset by interest rate step-ups within our existing debt portfolio.

	Ended September 30,		Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
(Provision) for income taxes	$ (72)	$ (370)	$ (677)	$(1,362)
Effective tax rate	13.5%	42.0%	30.8%	41.7%

The (PROVISION) FOR INCOME TAXES decreased $0.3 billion in the third quarter of 2003 compared with the third quarter of 2002. This decrease was primarily due to the impact of a lower effective tax rate and lower income before income taxes in the third quarter of 2003. The effective tax rate in the third quarter of 2003 was 13.5%, compared with 42.0% in the prior year quarter. The effective tax rate in 2003 was positively impacted by approximately 22.5 percentage points due to the recognition of approximately $120 million of tax benefits associated with refund claims, which received governmental approval during the third quarter. The tax refund claims related to additional research and experimentation tax credits generated in prior years. The effective tax rate in 2002 was negatively impacted by charges we recorded in connection with certain investments in leveraged leases, for which a limited tax benefit was recorded.

The (provision) for income taxes decreased $0.7 billion in the first nine months of 2003 compared with the same period of 2002. This decrease was primarily due to lower income before income taxes and the impact of a lower effective tax rate in the first nine months of 2003. The effective tax rate in the first nine months of 2003 was 30.8%, compared with 41.7% for the same period of 2002. The effective tax rate in 2003 was positively impacted by approximately 5.5 percentage points due to the recognition of approximately $120 million of tax benefits associated with tax refund claims related to additional research and experimentation tax credits generated in prior years. In addition, the 2003 effective tax rate was positively impacted by the recognition of tax benefits in connection with the exchange and sale of AT&T's remaining interest in AT&T Wireless common stock. The effective tax rate in 2002 was negatively impacted by the consolidation of AT&T Latin America's losses, for which the Company was unable to record tax benefits, as well as by charges we recorded in 2002 in connection with certain investments in leveraged leases for which a limited tax benefit was recorded.

In the fourth quarter of 2002, AT&T recorded a valuation allowance against the deferred tax asset attributable to the book and tax basis difference for our investment in AT&T Latin America. AT&T's ability to realize the deferred tax asset related to AT&T Latin America is dependent on factors outside of AT&T's control. Based on the resolution of various matters, which are expected over the next 12-15 months, AT&T may determine that all, or a portion of, the valuation allowance established in 2002 would no longer be necessary.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Minority interest income	$ -	$ 28	$ 1	$ 81

MINORITY INTEREST INCOME represents an adjustment to AT&T's income to reflect the less than 100% ownership of consolidated subsidiaries. Minority interest income decreased $28 million in the third quarter of 2003 compared with the third quarter of 2002, and decreased $80 million in the nine months ended September 30, 2003, compared with the comparable period in 2002. The decreases were primarily due to our no longer recording minority interest income related to AT&T Latin America. In December 2002, AT&T fully utilized the minority interest balance related to AT&T Latin America.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Net (losses) earnings related to equity investments	$ (3)	$ (13)	$ 3	$ (414)

NET (LOSSES) EARNINGS RELATED TO EQUITY INVESTMENTS, which are recorded net of income taxes, were losses of $3 million in the third quarter of 2003 compared with losses of $13 million in the third quarter of 2002. The favorable variance was primarily driven by a $13 million after-tax charge ($21 million pretax) recorded in the third quarter of 2002 due to the accretion of the floor price of AT&T's obligation to purchase the shares of AT&T Canada not owned by AT&T.

For the nine months ended September 30, 2003, net (losses) earnings related to equity investments were earnings of $3 million compared with losses of $414 million for the nine months ended September 30, 2002. The favorable variance was driven primarily by after-tax charges of $326 million ($528 million pretax) recorded in 2002 related to the estimated loss on AT&T's commitment to purchase the shares of AT&T Canada not owned by AT&T. The charges reflected further deterioration in the underlying value of AT&T Canada as well as accretion of the floor price of AT&T's obligation to purchase AT&T Canada shares. The variance was also positively impacted by equity losses from the Concert joint venture recorded in 2002 (prior to the unwind on April 1, 2002), combined with a favorable settlement in 2003 related to the unwind of the Concert joint venture, totaling $84 million after-tax ($136 million pretax).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Net (loss) from discontinued operations, net of income taxes	$ (13)	$ (318)	$ (13)	$(14,316)

NET (LOSS) FROM DISCONTINUED OPERATIONS for the three and nine months ended September 30, 2003, reflects an estimated cost related to potential legal liabilities for certain environmental clean-up matters associated with NCR Corporation (NCR), which was spun-off from AT&T in 1996. NCR has been formally notified by federal and state agencies that it is a potentially responsible party (PRP) for environmental claims under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and other statutes arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay, in Wisconsin. NCR was identified as a PRP because of alleged PCB discharges from two carbonless copy paper manufacturing facilities it previously owned, which were located along the Fox River. In July 2003, the government clarified its planned approach for remediation of the contaminated sediments, which caused NCR to increase its estimated liability. Under the separation and distribution agreement between AT&T and NCR, AT&T is required to pay a portion of such costs that NCR incurs above a certain threshold. Therefore, in the third quarter of 2003, AT&T recorded its estimated proportionate share of certain costs associated with the Fox River matter, which totaled $13 million on both, a pretax and after-tax basis. The extent of NCR's potential liability is subject to numerous variables that are uncertain at this time, including the actual remediation costs and the percentage NCR may ultimately be responsible for. As a result, AT&T's actual liability may be different than the estimated amount. Pursuant to the separation and distribution agreement, NCR is liable for the first $100 million of costs in connection with this liability. AT&T is liable for 37% of costs incurred by NCR beyond such $100 million threshold. All such amounts are determined after reduction of any monies collected by NCR from otherparties.

Net (loss) from discontinued operations for the three and nine months ended September 30, 2002 primarily represents the operating results of AT&T Broadband, which AT&T disposed of on November 18, 2002. Accordingly, the revenue and expenses of AT&T Broadband have been excluded from the respective captions in the Consolidated Statements of Operations. The operating results for AT&T Broadband for the three months ended September 30, 2002, was a loss of $318 million after-tax ($399 million pretax). For the nine months ended September 30, 2002, AT&T Broadband's operating loss was $14,228 million after-tax ($20,071 million pretax).

Also included in net (loss) from discontinued operations for the three and nine months ended September 30, 2002, was an estimated loss on a litigation settlement associated with the business of Lucent Technologies Inc. (Lucent), which was spun-off from AT&T in 1996. Sparks, et al. v. AT&T and Lucent Technologies Inc. et al., was a class action lawsuit filed in 1996 in Illinois state court. On August 9, 2002, a settlement proposal was submitted to and accepted by the court. In accordance with the separation and distribution agreement between AT&T and Lucent, AT&T's estimated proportionate share of the settlement and legal costs recorded in the second quarter of 2002 totaled $88 million after-tax ($132 million pretax). (In the fourth quarter of 2002, this initial estimate was reduced to $33 million after-tax [$45 million pretax]). Depending upon the number of claims submitted and accepted, the actual cost of the settlement to AT&T may be different than amounts accrued at September 30, 2003. While similar consumer class actions are pending in various state courts, the Illinois state court has held that the class it certified covers claims in the other state court class actions.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Cumulative effect of accounting changes	$ (27)	$ -	$ 15	$ (856)

Effective July 1, 2003, we early adopted FIN 46, "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin (ARB) No. 51," resulting in a charge of $27 million, net of income taxes of $17 million, recognized as the CUMULATIVE EFFECT of accounting change in the third quarter of 2003. This interpretation requires the primary beneficiary to consolidate a variable interest entity (VIE) if it has a variable interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. Based on this standard, two entities that AT&T leases buildings from qualify as VIEs and, therefore, were consolidated as of July 1, 2003.

Effective January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," resulting in $42 million of income, net of income taxes of $26 million, as the cumulative effect of this accounting principle. This standard requires that obligations that are legally enforceable and unavoidable, and are associated with the retirement of tangible long-lived assets, be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. AT&T historically included in its group depreciation rates an amount related to the cost of removal for certain assets. However, such amounts are not legally enforceable or unavoidable; therefore, the cumulative effect impact primarily reflects the reversal of such amounts accrued in accumulated depreciation.

Effective January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, franchise costs were tested for impairment as of January 1, 2002, by comparing the fair value to the carrying value (at the market level). As a result of this test, an impairment loss (related to discontinued operations) of $0.9 billion, net of income taxes of $0.5 billion, was recorded in 2002.

Earnings Per Share

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Earnings from continuing operations per basic share	$ 0.58	$ 0.68	$ 1.94	$ 2.14
Total earnings (loss) per basic share	0.53	0.27	1.94	(18.47)
Earnings from continuing operations per diluted share	$ 0.58	$ 0.67	$ 1.93	$ 2.07
Total earnings (loss) per diluted share	0.53	0.26	1.94	(17.92)

EARNINGS PER DILUTED SHARE from continuing operations declined $0.09 to $0.58 in the third quarter of 2003 compared with $0.67 per diluted share in the third quarter of 2002. For the nine months ended September 30, 2003, earnings per share from continuing operations declined $0.14 to $1.93 from $2.07 for the nine months ended September 30, 2002. The decline for the quarter was primarily driven by lower operating income, partially offset by favorable variances in other (expense) income, interest expense and the provision for income taxes. The decline for the year-to-date period was primarily due to lower operating income, partially offset by favorable variances in net earnings (losses) related to equity investments, other income and the provision for income taxes. Also contributing to the decline in the year-to-date period was higher average shares primarily resulting from AT&T common stock issued in conjunction with various equity transactions that took place during 2002 (see note 12).

In the third quarter of 2003, total diluted earnings per share of $0.53 included income from continuing operations as discussed above of $0.58, a loss from discontinued operations of $0.02 and a loss related to the cumulative effect of an accounting change of $0.03. Total earnings per share of $1.94 for the nine months ended September 30, 2003, included income from continuing operations as discussed above of $1.93, a loss from discontinued operations of $0.01 and income related to the cumulative effect of accounting changes of $0.02.

In the third quarter of 2002, total diluted earnings per share of $0.26 included income from continuing operations as discussed above of $0.67 and a loss from discontinued operations of $0.41. For the nine months ended September 30, 2002, total diluted loss per share of $17.92 included income from continuing operations as discussed above of $2.07, a loss from discontinued operations of $18.86, and a loss related to the cumulative effect of an accounting change of $1.13.

SEGMENT RESULTS

AT&T's results are segmented according to the customers we service: AT&T Business Services and AT&T Consumer Services. The balance of AT&T's continuing operations is included in a "Corporate and Other" group. This group primarily reflects corporate staff functions and the elimination of transactions between segments. The discussion of segment results includes revenue, operating income, capital additions and total assets.

Operating income is the primary measure used by AT&T's chief operating decision makers to measure AT&T's operating results and to measure segment profitability and performance.

Total assets for each segment generally include all assets, except intercompany receivables. Prepaid pension assets, taxes and corporate-owned or leased real estate are generally held at the corporate level, and therefore are included in the Corporate and Other group. The (loss) from discontinued operations is not reflected in the Corporate and Other group. Capital additions for each segment include capital expenditures for property, plant and equipment, additions to nonconsolidated investments and additions to internal-use software.

Our existing segments reflect certain managerial changes that were implemented during 2003. The changes primarily include a redistribution of property, plant and equipment from the Corporate and Other group to AT&T Business Services and a transfer of deferred taxes from AT&T Consumer Services to the Corporate and Other group.

Reflecting the dynamics of our business, we continuously review our management model and structure, which may result in additional adjustments to our operating segments in the future.

AT&T BUSINESS SERVICES

AT&T Business Services provides a variety of global communications services to small and medium-sized businesses, large domestic and multinational businesses and government agencies. AT&T Business' services include long distance, international, toll-free and local voice, including wholesale transport services (sales of services to service resellers), as well as data services and Internet protocol and enhanced (IP&E) services, which includes the management of network servers and applications. Data services and IP&E services are broad categories of services in which data (e.g., e-mail, video or computer file) is transported from one location to another. Data services includes bandwidth services (dedicated private line services through high-capacity optical transport), packet services and managed data services. In packet services, data is divided into efficiently sized components and transported between packet switches until it reaches its final destination, where it is reassembled. Packet services includes frame relay and Asynchronous Transfer Mode (ATM). IP&E

services includes all services that ride on the IP common backbone or that use IP technology, including managed IP services, as well as application services (e.g., hosting or security). Managed services delivers end-to-end enterprise networking solutions by managing networks, servers and applications. AT&T Business Services also provides outsourcing solutions and other professional services.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Services revenue*	$ 6,199	$ 6,616	$ 18,903	$ 19,697
Equipment and product sales	83	84	222	273
Total revenue	$ 6,282	$ 6,700	$ 19,125	$ 19,970
Operating income	$ 417	$ 854	$ 1,614	$ 2,577
Capital additions	$ 995	$ 912	$ 2,396	$ 2,418

	At September 30, 2003	At December 31, 2002
Total assets	$ 34,951	$ 36,389

* For the three and nine months ended September 30, 2002, services revenue included $98 million and $273 million, respectively, of sales to ATT Broadband, which were recorded as internal revenue through the November 18, 2002, date of disposition. Currently, sales to ATTBroadband, now Comcast Corporation, are recorded as external revenue.

REVENUE

AT&T Business Services revenue decreased $0.4 billion, or 6.2%, in the third quarter of 2003 and declined $0.8 billion, or 4.2%, for the nine months ended September 30, 2003, compared with the same prior year periods. The decreases were primarily driven by declines in long distance voice services, decreased data services and lower outsourcing contract revenue, partially offset by growth in local voice services and IP&E services. The year-to-date growth rate was favorably impacted by the reintegration of Concert businesses on April 1, 2002. Additionally, both the quarter and year-to-date period growth rates were negatively impacted by AT&T Latin America, which was fully consolidated in 2002, but not in 2003.

Long distance voice revenue for the third quarter of 2003 declined $328 million, or 10.5%, to $2.8 billion and decreased $766 million, or 8.2%, to $8.6 billion, for the nine months ended September 30, 2003, compared with the same prior year periods. The declines were driven by a decrease in the average price per minute in both the retail and wholesale businesses combined with a decline in retail volumes. These factors are expected to continue to negatively impact revenue. Total long distance volumes grew nearly 15% in the third quarter 2003 and approximately 13% for the nine months ended September 30, 2003, compared with the same prior year periods, reflecting an increase in lower-priced wholesale minutes more than offsetting the decrease in higher-priced retail minutes. This volume increase was not enough to offset the price declines previously noted.

Data services revenue declined 6.5%, or $137 million, to $1.9 billion, compared with the third quarter of 2002, and declined 3.8%, or $239 million, to $5.9 billion, for the nine months ended September 30, 2003, compared with the nine months ended September 30, 2002. The declines were primarily due to the continued decline in private line services (a service in which the connection is dedicated to the customer) driven by pricing. Excluding equipment and product sales, data services revenue declined 5.7% in the third quarter of 2003 compared with the third quarter of 2002, and declined 3.6% in the nine months ended September 30, 2003, compared with the nine months ended September 30, 2002.

IP&E services revenue increased $55 million, or 13.0%, to $476 million in the third quarter of 2003 compared with the third quarter of 2002 driven by increases in managed internet access, hosting and related equipment and product sales. For the nine months ended September 30, 2003, IP&E services revenue increased $145 million, or 11.8% to $1.4 billion, compared with the nine months ended September 30, 2002, driven primarily by increases in managed internet access, hosting and related equipment and product sales. Excluding equipment and product sales, IP&E services revenue increased 8.6% in the third quarter of 2003 compared with the third quarter of 2002, and increased 10.0% in the nine months ended September 30, 2003, compared with the nine months ended September 30, 2002.

Local voice services revenue grew $105 million, or 37.9%, to $379 million in the third quarter of 2003, and grew $279 million, or 33.9%, to $1.1 billion in the nine months ended September 30, 2003, compared with the same prior year periods. This growth reflects our continued focus on increasing the utilization of our existing footprint. There were over 4.3 million access lines in service at September 30, 2003, an increase of approximately 97 thousand since the end of the second quarter of 2003.

OPERATING INCOME

Operating income declined $0.4 billion, or 51.2%, in the third quarter of 2003 and $1.0 billion, or 37.4%, in the nine months ended September 30, 2003, compared with the same periods in 2002. The declines were primarily due to the decrease in the long distance voice business resulting primarily from the impact of continued decline in the average price per minute and declining retail volumes tied to the weak economyand substitution. The decline in operating income was also impacted by a $125 million access expense adjustment recorded in the third quarter of 2003 and an increase in restructuring charges, partially offset by cost control efforts.

Operating margin declined to 6.6% in the third quarter of 2003 from 12.7% in the third quarter of 2002, and declined to 8.4% in the nine months ended September 30, 2003 from 12.9% in the comparable prior year period. The margin declines for the third quarter and the year-to-date period reflect the declining long distance retail voice business coupled with a shift from higher-margin long distance voice services to lower-margin growth services, which include wholesale services. The decline in operating margin was also impacted by the access expense adjustment and an increase in restructuring charges, partially offset by cost control efforts.

OTHER ITEMS

Capital additions were $995 million in the third quarter of 2003, and were $2.4 billion for the nine months ended September 30, 2003. We continue to concentrate the majority of capital spending on our growth businesses, focusing on improving the customer experience and AT&T's overall cost structure. The current period capital additions also included $241 million of property, plant and equipment resulting from the adoption of FIN 46.

Total assets declined $1.4 billion, or 4.0%, at September 30, 2003, compared with December 31, 2002, primarily driven by lower net property, plant and equipment, a decrease in accounts receivable resulting from improved cash collections and lower revenue and a decrease in other current assets as a result of the deconsolidation of AT&T Latin America in the second quarter of 2003.

AT&T CONSUMER SERVICES

AT&T Consumer Services provides a variety of communication services to residential customers. These services include traditional long distance voice services such as domestic and international dial services (long distance or local toll calls where the number "1" is dialed before the call), calling card services and dial-up Internet. Transaction services, such as prepaid card and operator-assisted calls, are also offered. Collectively, these represent stand-alone long distance services and are not offered in conjunction with any other service. In addition, AT&T Consumer Services provides all distance services, which bundle long distance, local and local toll.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Revenue	$ 2,353	$ 2,794	$ 7,265	$ 8,791
Operating income	500	595	1,621	2,203
Capital additions	14	34	55	95

	At September 30, 2003	At December 31, 2002
Total assets	$ 1,095	$ 1,390

REVENUE

AT&T Consumer Services revenue declined $0.4 billion, or 15.8%, in the third quarter of 2003 and declined $1.5 billion, or 17.4%, in the nine months ended September 30, 2003, compared with the same prior year periods. The decline in both periods was primarily due to a decline in stand-alone long distance voice services, which declined $0.7 billion to $1.8 billion in the third quarter of 2003, and declined $2.2 billion to $5.6 billion in the first nine months of 2003, largely due to the impact of ongoing competition, which has led to a loss of market share, and substitution. In addition, stand-alone long distance voice services have been negatively impacted by the continued migration of customers to lower priced optional calling plans and other products offered by AT&T, such as bundled services. Partially offsetting these declines was an increase in bundled revenue and pricing actions. Bundled revenue rose $0.2 billion to $0.5 billion for the third quarter of 2003, and increased $0.7 billion to $1.4 billion for the nine months of 2003, reflecting an increase in subscribers primarily due to penetration in existing markets, as well as new markets entered into since September 30, 2002, including Indiana, Virginia, Maryland, Massachusetts, Wisconsin, Minnesota and Arizona. The increase in bundled revenue includes amounts previously incorporated in stand-alone long distance voice revenue for existing customers that migrated to bundled offers. Also partially offsetting the declines in stand-alone long-distance voice services were pricing actions taken, including a monthly fee that we began billing in the third quarter of 2003 to recover costs, including certain access charges and property taxes.

Total long distance calling volumes (including long distance volumes sold as part of a bundle) declined approximately 19% in the third quarter of 2003 and declined approximately 16% for the year-to-date period in 2003, compared with the same periods of 2002, as a result of competition and wireless and Internet substitution. The year-to-date decline was partially offset by an increase in prepaid card usage. We expect product substitution, competition (including the continued entry of the Regional Bell Operating Companies (RBOC's) into the long distance market) and customer migration to lower-priced calling plans and products to continue to negatively impact AT&T Consumer Services.

OPERATING INCOME

Operating income declined $0.1 billion, or 16.1%, in the third quarter of 2003 and declined $0.6 billion, or 26.4%, in the nine months ended September 30, 2003, compared with the same periods in 2002. The declines were primarily due to the decline in the stand-alone long distance business.

Operating margin declined to 21.2% in the third quarter of 2003 from 21.3% in the third quarter of 2002, and declined to 22.3% in the nine months ended September 30, 2003, from 25.1% in the comparable prior year period. The margin declines for the third quarter and the year-to-date period reflect the decrease in revenue coupled with a slower rate of decline in related expenses. The margin declines, particularly the third quarter decline, were partially mitigated by pricing actions taken.

OTHER ITEMS
Capital additions decreased $20 million, or 58.0% in the third quarter of 2003, and declined $40 million, or 42.2%, for the nine months ended September 30, 2003, compared with the same periods in 2002.

Total assets declined $0.3 billion to $1.1 billion at September 30, 2003, from December 31, 2002. The decline was primarily due to lower accounts receivable, reflecting lower revenue and improved cash collections.

CORPORATE AND OTHER

This group primarily reflects the results of corporate staff functions, brand licensing fee revenue and the elimination of transactions between segments.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	Dollars in millions			
Revenue	$ 14	$ (85)	$ 40	$ (224)
Operating (loss)	(88)	(34)	(211)	(139)
Capital additions	198	23	210	47

	At September 30, 2003	At December 31, 2002
Total assets	$ 15,261	$ 17,493

REVENUE
For the third quarter of 2003, Corporate and Other revenue was $14 million, compared with negative $85 million for the third quarter of 2002. For the nine months ended September 30, 2003, Corporate and Other revenue was $40 million, compared with negative $224 million for the nine months ended September 30, 2002. The year-over-year changes were primarily due to lower eliminations of internal revenue in 2003 as a result of the split-off of AT&T Broadband in November 2002.

OPERATING INCOME
For the third quarter of 2003, the operating loss grew $54 million to $88 million, compared with the third quarter of 2002. For the nine months ended September 30, 2003, the operating loss grew $72 million to a loss of $211 million, compared with the nine months ended September 30, 2002. The increased operating loss in 2003 compared with 2002 for both the quarter and year-to-date periods was primarily due to higher compensation and benefit costs reflecting higher postretirement and pension expense driven in part by a lower discount rate and expected rate of return on plan assets. The year-to-date increases were partly offset by transaction costs associated with AT&T's restructuring recorded in 2002 and an asset impairment charge recorded in 2002.

OTHER ITEMS
Capital additions increased $0.2 billion for the third quarter and nine months ended September 30, 2003, compared with the same periods in 2002, as a result of $192 million of property, plant and equipment recorded in connection with the adoption of FIN 46.

Total assets decreased $2.2 billion to $15.3 billion at September 30, 2003, from December 31, 2002. The decrease was primarily driven by a lower cash balance of $1.4 billion at September 30, 2003, and lower other current assets of $0.4 billion primarily due to a reduction in income taxes receivable as a result of the receipt of tax refunds. In addition, other assets declined $0.4 billion, primarily due to the disposal of our interest in AT&T Wireless common stock.

FINANCIAL CONDITION

	September 30, 2003	December 31, 2002
	Dollars in millions	
Total assets	$ 51,307	$ 55,272
Total liabilities	37,768	42,960
Total shareowners' equity	13,539	12,312

Total assets decreased $4.0 billion, or 7.2%, to $51.3 billion at September 30, 2003, compared with December 31, 2002. This decrease was largely driven by a $1.3 billion decrease in cash and cash equivalents. Property, plant and equipment declined $0.9 billion as a result of depreciation recorded during the period, partially offset by capital expenditures and assets added as a result of the adoption of FIN 46. Accounts receivable decreased by $0.8 billion, primarily driven by lower revenue and improved collections. In addition, other current assets declined $0.6 billion, primarily due to a reduction in income taxes receivable as a result of the receipt of tax refunds, and due to the deconsolidation of AT&T Latin America, partially offset by mark-to-market adjustments on financial instruments. Other assets declined by $0.4 billion, primarily due to the disposal of our interest in AT&T Wireless common stock, which had a carrying amount of $0.5 billion at December 31, 2002, a portion of which was used to redeem exchangeable notes that were indexed to AT&T Wireless common stock and the remaining interest was sold. The decline in other assets was partially offset by increased mark-to-market adjustments on financial instruments.

Total liabilities decreased $5.2 billion, or 12.1%, to $37.8 billion at September 30, 2003, from $43.0 billion at December 31, 2002. This decrease was primarily the result of $5.2 billion in lower debt, reflecting the early retirement of $4.8 billion of debt, including exchangeable notes indexed to AT&T Wireless common stock we owned, and the $1.3 billion repayment of one-year notes and commercial paper. These reductions in debt were partially offset by a $0.5 billion increase as a result of the adoption of FIN 46 and an increase of $0.4 billion due to mark-to-market adjustments. Also contributing to the decline in total liabilities was lower accounts payable of $0.5 billion as payments were made against year-end capital expenditures and other accruals and lower payroll and short-term benefit-related liabilities of $0.4 billion, as payments for salary and other compensation accruals were made during the period. Partially offsetting these declines was an increase in deferred taxes of $0.8 billion, reflecting greater tax deductions related to property, plant and equipment.

Total shareowners' equity increased $1.2 billion, or 10.0%, to $13.5 billion at September 30, 2003, from $12.3 billion at December 31, 2002. This increase was primarily due to $1.5 billion of net income, partially offset by dividends declared.

We expect the market value of AT&T's pension assets at December 31, 2003, to continue to be lower than the accumulated benefit obligation (ABO) for the AT&T Management Pension Plan. Under SFAS No. 87, "Employer's Accounting for Pensions," a company is required to record an additional minimum liability equal to the amount of the unfunded ABO. The actual 2003 minimum pension liability will be calculated on the next measurement date of the plan, which is December 31, 2003, and is dependent on plan asset values at that time, as well as assumptions used to measure pension obligations and could result in a net charge to equity. There is a wide range of possible outcomes depending on the securities' market performance and interest rate fluctuations during the fourth quarter.

LIQUIDITY

Cash Flows

	For the Nine Months Ended September 30, 2003	2002
	Dollars in millions	
Provided by operating activities of continuing operations	7,113	6,944
(Used in) investing activities of continuing operations	(2,389)	(2,614)
(Used in) financing activities of continuing operations	(5,987)	(3,882)
(Used in) discontinued operations	-	(4,133)
Net (decrease) in cash and cash equivalents	$ (1,263)	$ (3,685)

Net cash provided by operating activities of AT&T's continuing operations of $7.1 billion for the nine months ended September 30, 2003, was generated primarily by $6.9 billion of income from continuing operations, adjusted to exclude noncash income items and net gains on sales of businesses and investments. Also contributing to the source of cash was a net change in other assets and liabilities of $0.4 billion primarily due to tax refunds partially offset by lower payroll and benefit related liabilities due to payments of accruals. In addition, accounts receivable decreased $0.2 billion reflecting cash collections. Partially offsetting these sources of cash was a $0.4 billion decrease in accounts payable primarily due to payments of year-end operating accruals.

Net cash provided by operating activities of continuing operations of $6.9 billion for the nine months ended September 30, 2002, primarily included $7.2 billion of income from continuing operations, adjusted to exclude noncash income items and net gains on sales of businesses and investments. Also contributing to the source of cash from operating activities was a decrease in accounts receivable of $0.3 billion, primarily due to the collection of a receivable from Liberty Media Corporation and improved cash collections. Partially offsetting these sources of cash were net changes in other operating assets and liabilities of $0.4 billion due to decreases in payroll and benefit-related liabilities and other short-term liabilities and a decrease of $0.2 billion in accounts payable, all of which were primarily attributable to payments made against year-end accruals.

AT&T's investing activities resulted in a net use of cash of $2.4 billion in the nine months ended September 30, 2003, compared with $2.6 billion in 2002. During the nine months ended September 30, 2003, AT&T spent $2.4 billion on capital expenditures, made payments of $0.2 billion to BT primarily associated with assets assumed by AT&T that BT originally contributed to the Concert joint venture, and received $0.1 billion of proceeds from the sale of its remaining AT&T Wireless shares. During the nine months ended September 30, 2002, AT&T spent $2.8 billion on capital expenditures, had an increase in restricted cash of $0.4 billion as a result of the posting of a cash-collateralized letter of credit associated with certain private debt, and received $0.5 billion from the sale of fixed assets.

During the nine months ended September 30, 2003, net cash used in financing activities was $6.0 billion, compared with $3.9 billion in the nine months ended September 30, 2002. During the nine months ended September 30, 2003, AT&T made net payments of $5.8 billion to reduce debt, including early termination of debt (see "Financial Condition" discussion above), paid dividends of $0.4 billion and received $0.2 billion of cash collateral related to favorable positions of certain combined interest rate swap agreements. During the nine months ended September 30, 2002, AT&T made net payments of $6.1 billion to reduce debt, paid dividends of $0.4 billion, and received $2.6 billion from the issuance of AT&T common stock, primarily due to the sale of 46 million shares, the proceeds of which were used in October 2002 to settle a portion of AT&T's obligation to the AT&T Canada shareholders.

Working Capital and Other Sources of Liquidity

At September 30, 2003, our working capital ratio (current assets divided by current liabilities) was 1.08.

On October 8, 2003, we closed a $2.0 billion syndicated 364-day credit facility led by J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. that replaced our existing undrawn $3.0 billion facility. This new credit facility provides the option to extend the terms of the agreement for an additional 364-day period beyond October 7, 2004. Up to $0.3 billion of the facility can be utilized for letters of credit, which reduces the amount available. In October 2003, approximately $0.1 billion of letters of credit were issued under this facility. Additionally, the credit facility contains a financial covenant that requires AT&T to meet a net debt-to-EBITDA ratio (as defined in the credit agreement) not exceeding 2.25 to 1.00 and an EBITDA interest coverage ratio (as defined in the credit agreement) of at least 3.50 to 1.00 for four consecutive quarters ending on the last day of each fiscal quarter.

At September 30, 2003, we were in compliance with the $3.0 billion credit facility covenants. Pursuant to the definitions in the new and previous credit facility, business restructuring and asset impairment charges have no impact on the EBITDA financial covenant in the credit facility.

In July 2003, AT&T renewed its AT&T Consumer Services 364-day customer accounts receivable securitization facility and entered into a new AT&T Business Services 364-day customer accounts receivable securitization facility. Together, the programs provide up to $1.65 billion of available financing, limited by the eligible receivables balance, which varies from month to month. Proceeds from the securitizations are recorded as borrowings and included in short term debt. At September 30, 2003, approximately $0.2 billion was outstanding. The new facilities do not include the provision that previously required the outstanding balances to be paid by the collection of the receivables in the event AT&T's credit ratings were downgraded below investment grade. In addition, the new facilities require AT&T to meet a net debt-to-EBITDA ratio (as defined in the agreements) not exceeding 2.25 to 1.00.

We anticipate continuing to fund our operations in 2003 primarily with cash and cash equivalents on hand, as well as cash from operations. If economic conditions worsen or do not improve and/or competition and product substitution accelerate beyond current expectations, our cash flow from operations would decrease, negatively impacting our liquidity. However, we believe our access to the capital markets is adequate to provide the flexibility in funding our operations that we desire. Sources of liquidity include the commercial paper market, $2.4 billion remaining under a universal shelf registration, an up to $1.65 billion securitization program (limited by eligible receivables) and the $2.0 billion credit facility. The maximum amount of commercial paper outstanding during the third quarter of 2003 and during the first nine months of 2003 was approximately $1.0 billion and $1.1 billion, respectively. We cannot provide any assurances that any or all of these sources of funding will be available at the time they are needed or in the amounts required.

Credit Ratings and Related Debt Implications

In July 2003, AT&T's long-term credit ratings were lowered by both Standard and Poor's and Fitch to BBB from BBB+. Standard and Poor's (S&P) removed the ratings from CreditWatch. The Company's short term credit and commercial paper ratings were affirmed by S&P and Fitch at A-2 and F-2, respectively. The rating action by S&P triggered a 25 basis point interest rate step-up on $11 billion of debt, $1.7 billion of which matures in November 2003. This step-up will result in an increase in interest expense of approximately $25 million in 2004. On July 24, 2003, Moody's affirmed AT&T's current ratings at Baa2 for long term and P-2 for short term. Moody's continues to hold AT&T's outlook at negative. The table below reflects the most recent actions of the rating agencies as described above:

Credit Rating Agency	Short-Term Rating	Long-Term Rating	Outlook
Standard & Poor's	A-2	BBB	Stable
Fitch	F-2	BBB	Negative
Moody's	P-2	Baa2	Negative

Further debt rating downgrades could require AT&T to pay higher rates on certain existing debt and post cash collateral for certain interest-rate and equity swaps if we are in a net payable position.

If AT&T's debt ratings are further downgraded, AT&T's access to the capital markets may be restricted and/or such replacement financing may be more costly or have additional covenants than we had in connection with our debt at September 30, 2003. In addition, the market environment for financing in general, and within the telecommunications sector in particular, has been adversely affected by economic conditions and bankruptcies of other telecommunications providers. If the financial markets become more cautious regarding the industry/ratings category we operate in, our ability to obtain financing would be further reduced.

AT&T Corp. is generally the obligor for debt issuance. However we have some instances where AT&T Corp. is not the obligor, for example, the securitization facilities and certain capital leases. The total debt of these entities, which are fully consolidated, is approximately $0.7 billion at September 30, 2003, is included within short-term and long-term debt on the Consolidated Balance Sheet. AT&T expects to repay approximately $0.5 billion of this debt by the end of November 2003.

Cash Requirements

Our cash needs for 2003 will be primarily related to capital expenditures, repayment of debt and payment of dividends. We continue to expect our capital expenditures for 2003 to be approximately $3.4 billion (including the $0.4 billion noncash impact of assets consolidated as a result of FIN 46). On January 31, 2003, we completed the repurchase, with cash, of $3.7 billion of notes with interest rates of 6.375% and 6.5% and maturities of 2004 and 2013. In addition, in connection with the early retirement in February 2003 of exchangeable notes that were indexed to AT&T Wireless common stock, we made cash payments of $152 million to the debt holders, funded in part by $72 million of proceeds from the sale of our remaining AT&T Wireless shares. On September 15, 2003, we completed the cash repurchase of $0.5 billion of notes with interest rates of 8.125% and maturities of 2022 and 2024. On October 22, 2003, we completed the cash repurchase of notes called for redemption in September 2003, totaling $1.1 billion with interest rates of 5.625%, 6.375% and 8.625%, and maturities of 2004 and 2031. In addition, by the end of November 2003, AT&T expects to repay, with cash, $0.5 billion of debt associated with the exercise of its purchase option on buildings we leased. These transactions are expected to save approximately $0.3 billion of interest expense in 2003. In addition, we anticipate contributing approximately $0.5 billion to the postretirement benefit trusts in the fourth quarter of 2003.

In September 2003, the Board of Directors declared the third quarter dividend of $0.2375 per share (payable in November 2003), an increase of $0.05 per share compared with previous quarterly dividends.

Contractual Cash Obligations

Prior to the spin-off of AT&T Broadband, AT&T had guaranteed certain debt of AT&T Broadband, which as of September 30, 2003, we continued to provide. In October 2003, Comcast called this debt, which relieved AT&T of this $0.5 billion commitment.

Additionally, AT&T had guaranteed various other obligations of AT&T Broadband, including operating leases for real estate, surety bonds, and equity hedges, which we continue to provide. The notional amount of such guarantees totaled $458 million at December 31, 2002, and have decreased to $262 million as of September 30, 2003, primarily resulting from third parties releasing us from guarantees we provided for surety bonds. Comcast continues to provide indemnifications for the full amount of the remaining guarantees.

Under certain real estate operating leases (with entities consolidated as a result of FIN 46, see note 3), AT&T could have been required to make payments to the lessors of up to $427 million at the end of the lease term. On September 18, 2003, AT&T gave notice to exercise its purchase options under these leases. As a result of the exercise of these options, AT&T will no longer have a potential payment requirement.

RISK MANAGEMENT

We are exposed to market risk from changes in interest and foreign exchange rates, as well as changes in equity prices associated with previously affiliated companies. On a limited basis, we use certain derivative financial instruments, including interest rate swaps, options, forwards, equity hedges and other derivative contracts, to manage these risks. We do not use financial instruments for trading or speculative purposes. All financial instruments are used in accordance with board-approved policies.

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we completed an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them timely to material information required to be included in our Exchange Act filings. Other than as described below, there have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

In September 2003, in conjunction with our review of accounting and internal control systems, the Company determined that the liability on the balance sheet (included in accounts payable) relating to costs incurred in 2001 and 2002 pertaining to access and other connection expense was understated by $125 million. Since the impact to prior years' annual financial statements was not material, the Company recorded an additional expense of $125 million ($77 million after-tax) in the third quarter of 2003 to reflect the proper estimate of the liability.

A review was conducted by outside legal counsel, under the direction of the Audit Committee. This review found that two employees, one lower-level and one mid-level management employee, circumvented the internal controls process resulting in the financial impacts noted below. The Company made the appropriate personnel changes and enhanced its internal controls accordingly.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Refer to Part 1, Footnote 13, "Commitments and Contingencies" for discussion of certain legal proceedings.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	
10(iii)(A)1	Form of Amendment to AT&T Excess Benefit and Compensation Plan dated as of July 28, 2003 to AT&T Excess Benefit and Compensation Plan, as amended and restated effective October 1, 1996 (incorporated by reference to Exhibit (10)(iii)(A)9 to Form 10-K for 1996, File No. 1-1105).
10(iii)(A)2	Form of Amendment to AT&T Non-Qualified Pension Plan dated as of July 28, 2003 to AT&T Non-Qualified Pension Plan, as amended and restated January 1, 1995 (incorporated by reference to Exhibit (10)(iii)(A)10 to Form 10-K for 1996, File No. 1-1105).
10(iii)(A)3	Form of Amendment to AT&T Senior Management Incentive Award Deferral Plan dated as of July 28, 2003 to AT&T Senior Management Incentive Award Deferral Plan, as amended effective January 21, 1998 (incorporated by reference to Exhibit (10)(iii)(A)11 to Form 10-K for 1998, File No. 1-1105).
10(iii)(A)4	Form of Amendment to AT&T Corp. Senior Management Universal Life Insurance Program dated as of July 28, 2003 to AT&T Corp. Senior Management Universal Life Insurance Program effective October 1, 1999 (incorporated by reference to Exhibit (10)(iii)(A)16 to Form 10-K for 2000, File No. 1-1105).
10(iii)(A)5	Form of Amendment of Appendix A of AT&T Senior Officer Separation Plan dated as of July 28, 2003 to AT&T Senior Officer Severance Plan, as amended October 30, 1997 (incorporated by reference to Exhibit (10)(iii)(A)18 to Form 10-K for 1997, File No. 1-1105), and as amended, restated and renamed AT&T Senior Officer Separation Plan as of January 1, 2003 (incorporated by reference to Exhibit (10)(iii)(A)18 to Form 10-K for 2002, File No. 1-1105).
10(iii)(A)6	Form of Employment Agreement between AT&T Corp. and Betsy J. Bernard as amended on July 25, 2003 to original agreement dated April 9, 2001 (incorporated by reference to Exhibit (10)(iii)(A)21 to Form 10-K for 2001. File No. 1-1105) including amendment dated October 1, 2002 (incorporated by reference to Exhibit (10)(iii)(A)21 to Form 10-K for 2002, File No. 1-1105).
10(iii)(A)7	Form of Employment Agreement between AT&T Corp. and David W. Dorman as amended on July 25, 2003 to original agreement dated May 18, 2001 (incorporated by reference to Exhibit (10)(iii)(A)35 to Form 10-K for 2001) including amendment dated December 31, 2002 (incorporated by reference to Exhibit (10)(iii)(A)34 to Form 10-K for 2002, File No. 1-1105).
12	Computation of Ratio of Earnings to Fixed Charges
99.1	CEO Certification of Periodic Financial

	Reports
99.2	CFO Certification of Periodic Financial Reports

(b) Reports on Forms 8-K

Form 8-K dated July 16, 2003 was filed pursuant to Item 5 on July 17, 2003. Form 8-K dated July 24, 2003 was furnished pursuant to Item 7 and Item 9 on July 24, 2003. Form 8-K dated July 24, 2003 was furnished pursuant to Item 12 on July 28, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AT&T Corp.

/s/ N. S. Cyprus

By: N. S. Cyprus
Vice President and Controller
(Principal Accounting Officer)

Date: November 11, 2003

Chief Executive Officer and Chief Financial Officer Certifications

AT&T Corp.

Certifications Pursuant To Section 302 of
The Sarbanes-Oxley Act of 2002

CERTIFICATION

I, David W. Dorman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AT&T,

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting ; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 11, 2003 /s/ David W. Dorman

By: David W. Dorman
Chief Executive Officer

CERTIFICATION

I, Thomas W. Horton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AT&T,
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting ; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 11, 2003 /s/ Thomas W. Horton

By: Thomas W. Horton
Chief Financial Officer

Exhibit Index

Exhibit Number	
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99.2	CFO Certification of Periodic Financial Reports

Exhibit 10(iii)(A)1

AT&T EXCESS BENEFIT AND COMPENSATION PLAN

AT&T
and
such of its Subsidiary Companies that are
Participating Companies

ARTICLE 4

RETIREMENT AND DEATH BENEFITS

* * * *

4.9. Change in Control Provisions

(a) In accordance with the preceding provisions of Article 3 and this Article 4, following the occurrence of a "change in control," as that term is defined in the AT&T Management Pension Plan, the benefit determined pursuant to Section 4.2 and/or Section 4.3 for a "CIC eligible employee," as that term is defined in the AT&T Management Pension Plan, shall be determined taking into account the change in control provisions of such plan. Pursuant to the Board resolution of January 21, 1998, the Company may elect to pay a Participant's benefit from this Plan in a single sum payment.

(b) Notwithstanding the provisions of Section 9.1, or any other provision of the Plan, unless required by applicable law, this Section 4.9 may not be amended in any manner adverse to the interests of Participants without their consent and, further, upon the occurrence of a CIC, no amendment may be made to this Section 4.9 by the Board, the Company, (including any successor to the Company), any committee, any officer, or any other party to suspend, modify, or eliminate any benefit provisions that are applicable upon occurrence of a CIC.

Exhibit 10(iii)(A)2

AT&T NON-QUALIFIED PENSION PLAN

AT&T
and
such of its Subsidiary Companies that are
Participating Companies

ARTICLE 9.

GENERAL PROVISIONS

* * * *

9.18 CIC Provision

(a) Applicability

This Section 9.18 applies only to an individual who, as of the date a Change in Control ("CIC") occurs (as defined in the Pension Plan), is an employee of a Participating Company and a Participant in this Plan.

(b) Nonforfeitable Benefits

Notwithstanding any other provisions of this Plan, on and after the date a CIC occurs, solely for purposes of determining entitlement to benefits from this Plan, an individual described in Section 9.18(a) shall be deemed to be vested under the Pension Plan, whether or not such Participant is otherwise entitled to a vested benefit from the Pension Plan.

(c) Amendments to CIC Provisions

Notwithstanding the provisions of Section 8.02, or any other provision of the Plan, unless required by applicable law, this Section 9.18 may not be amended in any manner adverse to the interests of Participants without their consent and, further, upon the occurrence of a CIC, no amendment may be made to this Section 9.18 by the Board, the Company, (including any successor to the Company), any committee, any officer, or any other party to suspend, modify, or eliminate any benefit provisions that are applicable upon occurrence of a CIC.

AT&T SENIOR MANAGEMENT INCENTIVE AWARD DEFERRAL PLAN

AT&T SENIOR MANAGEMENT INCENTIVE AWARD DEFERRAL PLAN

* * * *

6. CHANGE IN CONTROL/POTENTIAL CHANGE IN CONTROL

(a) Upon the occurrence of a "Change in Control" or a "Potential Change in Control", as those terms are defined in the AT&T Corp. Benefits Protection Trust (as in effect on October 23, 2000), the Senior Manager (active and former) individual deferral agreements (including any individual non-qualified pension arrangements) for the deferral of compensation, retirement and/or severance benefits (and the deferral account balance, if any, under each such agreement) identified by the AT&T Executive Vice President - Human Resources, in her sole discretion, shall be deemed to be deferred compensation obligations under the Plan. Notwithstanding any other provision of the Plan to the contrary, (i) each of the individual deferral agreements (including each of the individual non-qualified pension arrangements) deemed to be a deferred compensation obligation of the Plan pursuant to the provisions of this Section 6(a) shall be treated under the Plan in a manner that is consistent with the express terms and conditions of the respective agreement; and (ii) the deferred compensation (including non-qualified pension benefit) entitlement of a Senior Manager under the Plan with respect to any such individual deferral agreement (including individual non-qualified pension arrangements) shall be limited solely to the benefit provided under the express terms and conditions of the respective agreements. Nothing contained in this Section 6 shall entitle a Senior Manager to any other deferred compensation benefits under the Plan other than as expressly provided in the individual deferral agreement (including any individual non-qualified pension arrangement).

(b) Upon the occurrence of a "Change in Control", as defined in the AT&T 1997 Long Term Incentive Program (as in effect on October 23, 2000), the portion of each account balance under the Plan (including the account balance under any individual deferral agreement and the benefits under any individual non-qualified pension arrangement) deemed pursuant to the provisions of Section 6(a) to be an obligation of the Plan), that was not vested immediately prior to such change in control, shall become fully vested.

(c) After the occurrence of a "Change in Control", as defined in the AT&T 1997 Long Term Incentive Program (as in effect on October 23, 2000), the interest credited to an account balance (including the account balance of any former Senior Manager and the account balance under any individual deferral agreement deemed pursuant to the provisions of Section 6(a) to be an obligation of the Plan) for any period, to the extent applicable, shall not be less than the interest derived under the interest rate formula applicable to such account balance (and used to calculate the interest credited to such account balance) for the interest crediting period immediately prior to the occurrence of such change in control (unless the provisions of any individual deferral agreement provide otherwise).

(d) Notwithstanding any provision of any Senior Manager's deferral election to the contrary, after the occurrence of a "Change in Control", as defined in the AT&T 1997 Long Term Incentive Program (as in effect on October 23, 2000), no payment of any Senior Manager's short term incentive award, if any, under the AT&T Short Term Incentive Plan for the performance year during which such change in control occurs shall be deferred under the Plan.

AT&T CORP.
SENIOR MANAGEMENT
UNIVERSAL LIFE INSURANCE PROGRAM

AT&T CORP. SENIOR MANAGEMENT UNIVERSAL LIFE INSURANCE PROGRAM

Section 8.
Amendment and Termination

* * * *

8.2 Continued Maintenance of Program After Change in Control. Notwithstanding any other provision of the Program to the contrary (including, but not limited to the provisions of Section 8.0 and Section 8.1), if a Change in Control occurs, the Company (or its successor) shall continue to maintain the Program in accordance with its terms and conditions prior to the occurrence of the Change in Control (including, but not limited to, the provisions in Section 5.1 and Section 5.2 that require the Company to make applicable premium payments and tax adjustment payments, respectively, and any amendment to such terms and conditions that was duly adopted prior to the occurrence of the Change in Control), without any material reduction in any Program benefits, features or Participant or Policyholder rights, for a minimum of two (2) years after the Change in Control occurs.

8.3 Prohibition on Amendments After Change in Control. Notwithstanding any other provision of the Program to the contrary (including, but not limited to, the amendment provisions set forth in Section 8.0 and Section 8.1), unless required by applicable law, after the occurrence of a Change in Control, no amendment shall be made by the Board (or the successor board of directors), a delegate, the Company (or the successor of the Company), any committee, any officer, any employee of the Company (or the successor of the Company) or by any other party, to suspend, modify, or eliminate the Program continuation provisions set forth in Section 8.2, or to eliminate the restrictions contained in this Section 8.3, and no such amendment to the Program made in violation of this Section 8.3 shall be effective. Nothing in Section 8.2 or this Section 8.3 shall be construed to preclude the Company (or the successor of the Company) from implementing any amendment to the Program that was duly adopted prior to the occurrence of the Change in Control, but does not become effective until after the Change in Control occurs.

* * * *

Exhibit 10(iii)(A)5

Appendix A

AT&T SENIOR OFFICER SEPARATION PLAN
CHANGE IN CONTROL PROVISIONS

1. PURPOSE:

The Change in Control benefits described in Appendix A will not apply unless a Change in Control occurs.

Notwithstanding any terms of the Plan to the contrary, for the two-year period following a Change in Control (as defined below), (i) the definitions of "Senior Officer", "Cause" and "Good Reason" that otherwise would have been governed by Sections A and B, respectively, of the Plan, (ii) the procedure to be followed in the case of termination of employment for Good Reason that otherwise would have been governed by Section E.2 of the Plan, and (iii) the Plan benefits that otherwise would have been governed by Section F of the Plan, shall be determined exclusively pursuant to the provisions of this Appendix A. Accordingly, the definition of Senior Officer in Section A of the Plan, the definitions of "Cause" and "Good Reason" in Section B of the Plan, and Sections E.2 and F of the Plan shall not apply for the two-year period following a Change in Control. Except to the extent otherwise specified in this Appendix A, the applicable definitional, operational, procedural and administrative provisions detailed in Sections A (other than the definition of "Senior Officer"), B, (other than the definitions of "Cause" and "Good Reason"), C, D, E (other than the notification requirements set forth in Section E.2), G, H, I, J, K, L, M, N, O, P, Q and R of the Plan remain unchanged and will govern the operation of the Plan, including the provisions of this Appendix A, following a Change in Control.

2. EFFECTIVE DATE:

The effective date of the Change In Control related provisions of the Plan, as set forth in this Appendix A, is October 23, 2000.

3. DEFINITIONS:

Business Relocation Beyond a Reasonable Commuting Distance - shall mean:

a change in the Senior Officer's principal work location to a location that

(i) is more than thirty five (35) highway miles from the Senior Officer's principal work location immediately prior to the Change in Control; and

(ii) increases the Senior Officer's commuting distance in highway mileage.

The terms "highway miles" and "highway mileage" shall have the same meanings as these terms have when used to express the distances between locations by mapmakers such as the Hagstrom Map Company.

Cause - shall mean:

(i) commission of a crime, or conviction of a crime, including by a plea of guilty or nolo contendere, involving theft, fraud, dishonesty or moral turpitude;

(ii) intentional or grossly negligent disclosure of confidential or trade secret information of the Company to anyone not entitled to such information, which causes significant harm to the Company;

(iii) gross omission or gross dereliction of any statutory or common law duty of loyalty to the Company, which causes significant harm to the Company; or

(iv) willful violation of the Company's Code of Conduct or any other written Company policy, where said violation causes significant harm to the Company

Change in Control ("CIC") - shall have the same meaning assigned to that term in the AT&T 1997 Long Term Incentive Program, as in effect on October 23, 2000.

CIC Eligible Senior Officer - shall mean a Senior Officer who, within two (2) years following a CIC, (a) has his or her employment terminated for reasons other than (i) Cause or (ii) by reason of becoming eligible for benefits under any AT&T long-term disability plan, or (b) terminates employment for Good Reason occurring after a CIC, provided that the Senior Officer has followed the Notification Procedure set forth in Section 4 of this Appendix A.

Good Reason - with respect to a Senior Officer, shall mean the occurrence of any of the following events without the Senior Officer's express written consent:

(i) a Reduction In Authority or Responsibility (as defined below); or

(ii) a Reduction in Compensation (as defined below); or

(iii) a Business Relocation Beyond a Reasonable Commuting Distance (as defined above).

Reduction in Authority or Responsibility - shall mean:

(i) the assignment to the Senior Officer of any duties materially inconsistent in any respect with the Senior Officer's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities to which the Senior Officer was assigned immediately prior to the date of the Change in Control; or

(ii) any other action by the Company which results in a diminution in such position, authority, duties or responsibilities.

Reduction in Authority or Responsibility shall not include:

(a) an isolated, insubstantial and inadvertent action taken in good faith and which is remedied by the Company promptly after receipt of notice thereof given by the Senior Officer; or

(b) any temporary reduction in authority or responsibility while the Senior Officer is absent from active service on any approved disability or approved leave of absence.

By way of example, and not by way of limitation, Reduction in Authority or Responsibility shall include:

(1) The removal of any division, business or operating unit or other business organization from the direct managerial responsibility of the Senior Officer, or

(2) The material reduction in the size or scope of responsibility or operating budget of any division, business or operating unit or other business organization for which the Senior Officer has direct managerial responsibility, or

(3) A reduction in the Senior Officer's authority to legally bind the Company under the Company's Schedule of Authorization, as in effect immediately prior to the Change in Control, without first obtaining any additional authority or approval.

Reduction in Compensation - shall mean, with respect to a Senior Officer, a reduction in any of the following amounts of compensation from the amounts of such compensation that existed immediately prior to the Change in Control:

a. the Senior Officer's annual base salary rate; or

b. the Senior Officer's Target Annual Bonus (as defined below) without an offsetting increase in the Senior Officer's annual base salary rate, or

c. the Senior Officer's Target Annual Long Term Incentive Compensation (as defined below), without an offsetting increase in the Senior Officer's annual base salary rate and/or the Senior Officer's Target Annual Bonus.

A Senior Officer's Target Annual Bonus shall mean the value determined by multiplying the Senior Officer's Target Annual Bonus percentage in effect on the day preceding the date of the CIC by his or her annual base salary rate in effect on the day preceding the date of the CIC.

A Senior Officer's Target Annual Long Term Incentive Compensation shall mean the total value of the annual equity-based incentive compensation grants to the Senior Officer, including the following: (a) "full value equity" compensation, including, but not limited to, restricted stock, restricted stock units ("RSUs"), and performance shares, and (b) "non-full value equity" based compensation including, but not limited to, stock options and stock appreciation rights, in each case granted as part of the Senior Officer's annual compensation, but shall not include any special one-time or periodic grants or awards, granted or awarded as part of a hiring package or retention program, agreement or arrangement.

(a) The value of each "full value equity" grant, if any, shall be the fair market value ("FMV") of such grant on the date the grant is approved by the Compensation and Employee Benefits Committee of the AT&T Board of Directors, by such other management committee or committee of the AT&T Board of Directors, or by the duly authorized officers of the successor to AT&T Corp. (for the purpose of this definition, separately and collectively referred to as the "Committee"). The FMV of each "full value equity" grant shall be determined by multiplying the number of related AT&T common shares by the applicable average of the daily high and low sale prices of AT&T common shares on the New York Stock Exchange, or by multiplying the number of related common shares of the successor to AT&T by the applicable average of the daily high and low sale prices of such successor's common shares on the New York Stock Exchange or other national exchange on which such shares are listed, as appropriate, for the date the grant was approved by the Committee. For 2003, the average of the high and low sales prices of AT&T common shares on the NYSE on the date RSU grants were approved, January 21, 2003, was $25.925.

(b) The value of each "non-full value equity" grant, such as stock options and stock appreciation rights ("SARs"), shall equal the per option or per SAR value on the date the grant was approved by the Committee, based on Black Scholes estimates (or such other option-pricing model, deemed acceptable by the Financial Accounting Standards Board for valuing options and SARs and utilized by the Committee when considering such grant) multiplied by the number of related AT&T common shares in such grant, and/or other such amounts determined in the same manner and approved by the Committee for the year in which the grant being valued was granted. For 2003, the Black Scholes value per stock option approved on January 21, 2003 for the AT&T 2003 annual grant was $10.

For this purpose, the Black Scholes and FMV values of the respective components of AT&T Target Annual Long Term Incentive Compensation shall be updated annually as approved by the Committee.

Senior Officer - Shall mean a Senior Officer (as defined in the Plan) who, immediately prior to a CIC, was an employee of AT&T or an Affiliate (including a Senior Officer who was receiving benefits under any AT&T short term disability plan, or was on an approved leave of absence with guaranteed reinstatement rights), or was a Senior Officer immediately prior to an event which constitutes Good Reason, and who remains continuously employed by the Company following a CIC.

Special Pension Enhancement - shall mean the CIC Credit as defined in the AT&T Management Pension Plan (as amended by the resolutions of the AT&T Board of Directors dated October 23, 2000), without regard to whether it is payable under the AT&T Management Pension Plan or under the AT&T Excess Benefit and Compensation Plan, or both..

Target Annual Full-Value Equivalent Award - Shall mean the equity-based award, designated in full-value shares or share equivalents, such as performance shares, restricted stock, restricted stock units or cash, and not a derivative value, such as stock options or stock appreciation rights, granted as part of a Senior Officer's annual compensation and not a special one-time or periodic grant, such as part of a hiring package or retention program.

4. NOTIFICATION REQUIREMENTS FOR TERMINATION FOR GOOD REASON:

In the event a Senior Officer determines that Good Reason exists to terminate his or her employment with the Company, the Senior Officer must notify the Company in writing of the specific event, within sixty (60) days of the occurrence of such event, and such notice shall also include the date on which the Senior Officer will terminate employment with the Company, which date shall be no earlier than 15 days from the date of such notice. The date set forth in the notice for termination, or such earlier or later date as the Senior Officer and the Company shall mutually agree in writing, shall be the Senior Officer's Final Payroll Date.

Within seven (7) days of the Company's receipt of such written notice, the Company shall notify the Senior Officer that it agrees or disagrees with the Senior Officer's determination that the event specified in the Senior Officer's notice constitutes Good Reason. Notwithstanding any provision of the Plan or this Appendix A giving the Company discretionary authority regarding administration of the Plan, the Company's determination whether it agrees or disagrees with the Senior Officer's determination that the event specified in the Senior Officer's notice constitutes Good Reason shall be reasonable, based on all the relevant facts and circumstances. The Arbitrator in any arbitration proceeding initiated pursuant to Section M of the Plan, in which the existence of Good Reason is an issue, shall be expressly empowered and directed to review, de novo, the facts and circumstances claimed by the Senior Officer to constitute Good Reason.

In the event the Company notifies the Senior Officer that it agrees with the Senior Officer's determination that the event specified in the Senior Officer's notice constitutes Good Reason, the Senior Officer will terminate employment with the Company on his or her Final Payroll Date.

In the event the Company notifies the Senior Officer that it disagrees with the Senior Officer's determination that the event specified in the Senior Officer's notice constitutes Good Reason, the Senior Officer may elect to terminate his or her employment on the date specified in the Notice (or such later date as the Senior Officer and the Company may mutually agree in writing) or may elect to continue his or her employment. In either event, the Senior Officer shall be entitled to pursue a claim in accordance with the procedures set forth in Section L of the Plan, or pursue the Arbitration procedures set out in Section M of the Plan without first filing a claim. If the Senior Officer's claim, or arbitration, is ultimately concluded in the Senior Officer's favor, the Senior Officer shall retain the right to receive the benefits under this Appendix A.

5. SEVERANCE PAYMENT:

In addition to the Special Pension Enhancement provided under the terms of the AT&T Management Pension Plan and the AT&T Excess Benefit and Compensation Plan, a CIC Eligible Senior Officer shall be provided a Severance Payment that is a lump sum cash payment equal to the sum of (a) three hundred percent (300%) of the CIC Eligible Senior Officer's highest annual base salary rate in effect on or after the day preceding the date of the CIC (but ignoring increases in annual base salary rate attributable solely to any decreases in the value of the CIC Eligible Senior Officer's Target Annual Bonus and/or Target Annual Long-Term Incentive, as contemplated by the definition of Reduction in Compensation),, plus (b) three hundred percent (300%) of the CIC Eligible Senior Officer's Target Annual Bonus for the year in which the CIC occurs, plus (c) three hundred percent (300%) of the fair market value (FMV) of the CIC Eligible Senior Officer's Target Annual Full-Value Equivalent Award for the calendar year in which the CIC occurs, minus (d) an amount equal to ninety percent (90%) of the CIC Eligible Senior Officer's Special Pension Enhancement. For purposes of this Section 5 the FMV of a CIC Eligible Senior Officer's Target Annual Full-Value Equivalent Award shall be determined by multiplying the number of performance shares, or shares of restricted stock, or restricted stock units, as the case may be, by the average of the daily high and low sale prices of AT&T common shares on the New York Stock Exchange (NYSE) on the date the Committee approved the annual grant for the calendar year in which the CIC occurs. For 2003, the average of the high and low sales prices of AT&T target common shares on the NYSE on the date the RSU grant was approved, January 21, 2003, was $25.925.

The Severance Payment under this Section 5 will be paid in a single lump sum as soon as administratively feasible after the expiration of the revocation period indicated in the CIC Eligible Senior Officer's Release without revocation, unless deferral of such Severance Payment is elected in accordance with Section 6 of this Appendix A below.

6. DEFERRAL OPTION:

The CIC Eligible Senior Officer may elect to defer receipt of the Severance Payment. The CIC Eligible Senior Officer's written election must be submitted to the AT&T Executive Benefits Organization, or successor organization, not later than the day prior to the date on which the Release is executed. A copy of the election form to be completed is attached as Appendix C. Deferral may be for a period of up to five (5) years following the date of the CIC Eligible Senior Officer's Final Payroll Date, in whole year increments. Payout of the deferred Severance Payment may be in the form of a lump sum, or up to a maximum of five (5) approximately equal annual installments, as indicated on the election form.

The first installment from the deferred account (or the single payment, if the CIC Eligible Senior Officer so elected), including interest thereon, will be paid by the end of the calendar quarter which immediately follows the first, second, third, fourth or fifth anniversary (as so elected by the CIC Eligible Senior Officer) of the CIC Eligible Senior Officer's Final Payroll Date. All unpaid deferred amounts will continue to accrue interest at the rate of return set forth below. In the event of a CIC Eligible Senior Officer's death prior to the payment of all deferred amounts, the unpaid balance shall be paid to his or her named beneficiary (or to his or her estate, if no beneficiary has been named) in a lump sum not later than the end of the calendar quarter immediately following the calendar quarter in which the AT&T Executive Benefits Organization, or successor organization, receives written notice of such death.

For individuals who were designated as Senior Officers (as defined in the Plan) as of January 1, 2003, deferred amounts will be credited quarterly with interest equal to one-quarter (1/4) of the average rate applicable to actively traded 10-year U.S. Treasury Notes for the prior calendar quarter, plus 1.25 percent. For individuals who were designated as Senior Officers after January 1, 2003, the interest rate credited on their deferred amounts will be as determined by the Board. The crediting of interest on deferred amounts, will commence with the CIC Eligible Senior Officer's Final Payroll Date, and will be calculated in accordance with rules and procedures in place for the AT&T Senior Management Incentive Award Deferral Plan, or the successor to such plan, in effect immediately prior to the date of the CIC. CIC Eligible Senior Officers who elect to defer amounts under this arrangement shall be unsecured general creditors of the Company. The Company shall establish for each

CIC Eligible Senior Officer, an unfunded bookkeeping account to which deferred amounts (and interest) will be credited, but the Company shall have no obligation to fund or set aside assets for the payment of any deferred amounts under this arrangement.

7. ANNUAL BONUS:

Subject to the second and third sentences of this Section 7, a CIC Eligible Senior Officer who has performed at least eighty-eight (88) consecutive days of service to the Company during his or her Termination Year, will be eligible to receive a prorated portion of the annual incentive applicable to the Termination Year based on the CIC Eligible Senior Officer's time on the active payroll during the Termination Year. The prorated portion shall equal the product of the actual achievement level for the CIC Eligible Senior Officer's annual incentive for such year, as determined by the Company, calculated in a manner consistent with the calculation of the annual incentive for similarly situated senior management employees who were employed throughout the year for which the calculation is being made, multiplied by a fraction, the numerator of which is the number of completed months of the CIC Eligible Senior Officer's employment during the Termination Year (including the last month of employment if the CIC Eligible Senior Officer's Final Payroll Date is on or after the 15th of the month) and the denominator of which is 12. If the CIC Eligible Senior Officer's Final Payroll Date occurs in the same calendar year as the CIC, the CIC Eligible Senior Officer will have received a prorated portion of his or her annual incentive with respect to service during such calendar year through the date of the CIC, in accordance with the terms of the AT&T Management Pay Plan. In such event, the numerator of the fraction referred to in the second sentence of this Section 7 shall equal the number of complete months of the CIC Eligible Senior Officer's employment during the Termination Year after the date of the CIC (including the month in which the CIC occurs if the CIC occurs prior to the 15th of the month, as well as the last month of employment if the CIC Eligible Senior Officer's Final Payroll Date is on or after the 15th of the month).

8. OUTSTANDING LONG TERM INCENTIVES:

The disposition of all grants under any AT&T long term incentive program, including any plan previously maintained by McCaw, LIN, TCG, TCI or MediaOne, including the AT&T Wireless Adjustment Plan, shall be governed by the provisions of the applicable AT&T long term incentive program.

9. CASH AWARDS/PAYMENTS:

Cash awards/payments, including cash retention, unpaid signing bonuses and any other cash payments or awards which have not yet vested, will vest as of the Participant's Final Payroll Date and upon expiration of the revocation period indicated in the Release without revocation, and will be paid as soon as administratively feasible following such revocation period.

10. SENIOR MANAGER UNIVERSAL LIFE INSURANCE PROGRAM:

Notwithstanding the terms and conditions of the AT&T Corp. Senior Manager Universal Life Insurance Program ("SMULIP"), with respect to a CIC Eligible Senior Officer who is a participant in SMULIP, but has not attained his or her Normal Termination Date (as defined in SMULIP) as of his or her Final Payroll Date, the Company shall pay a lump sum cash payment ("SMULIP Payment") to the CIC Eligible Senior Officer (or to his or her assignee, as applicable) as soon as administratively feasible after the expiration of the revocation period indicated in the CIC Eligible Senior Officer's Release without revocation. The SMULIP Payment shall equal to the sum of (x) plus (y) where (x) equals the present value, as of the date of the CIC Eligible Senior Officer's Final Payroll Date and assuming that the discount rate equals 8%, of any necessary additional premium payments, estimated, but not guaranteed, which, together with the SMULIP policy cash value as of the month end immediately prior to the CIC Eligible Senior Officer's Final Payroll Date, to be sufficient to provide for the continuation of the insurance coverage under the SMULIP Policy (based on assumptions that are consistent with the assumptions under the SMULIP policy used immediately prior to the CIC including, but not limited to, the annual crediting rate of the SMULIP policy) with projected coverage equal to the applicable benefit amount (as defined in SMULIP) as if the CIC Eligible Senior Officer had continued in active employment until attaining his or her Normal Termination Date (as defined in SMULIP) and assuming that his or her annual base salary rate remains fixed in an amount equal to his or her highest base salary rate in effect on or after the day preceding the date of the CIC, (but ignoring increases in annual base salary rate attributable solely to any decreases in the value of the CIC Eligible Senior Officer's Target Annual Bonus and/or Target Annual Long-Term Incentive, as contemplatedby the definition of "Reduction in Compensation" set forth above) and (y) equals the amount (the "tax adjustment payment"), calculated in accordance with AT&T's practice for Senior Officers as in effect immediately prior to the CIC, to cover the Federal income and FICA (Medicare portion) taxes estimated to be incurred by the CIC Eligible Senior Officer by reason of the lump sum cash payment and the tax adjustment payment provided for in this section. Such CIC Eligible Senior Officer shall not be entitled to any additional or future payments from the Company under SMULIP.

11. FINANCIAL COUNSELING:

A CIC Eligible Senior Officer shall receive a lump sum payment estimated by the Company in its sole discretion to be sufficient to provide, for a period of two (2) years after the CIC Eligible Senior Officer's Final Payroll Date, financial counseling services from a qualified financial counselor, plus a tax adjustment payment equal to the amount, calculated in accordance with AT&T's practice for Senior Officers as in effect immediately prior to the CIC, to cover the Federal income and FICA (Medicare portion) taxes estimated to be incurred by the CIC Eligible Senior Officer by reason of the lump sum payment for financial counseling services and the tax adjustment payment provided for in this section. Payment shall be made as soon as administratively feasible following the CIC Eligible Senior Officer's Final Payroll Date and the expiration of the revocation period indicated in the Release without revocation. A CIC Eligible Senior Officer shall not be entitled to any additional or future payments from the Company with respect to financial counseling or related services provided to the CIC Eligible Senior Officer after his or her Final Payroll Date.

12. AT&T TOLL DISCOUNT:

The CIC Eligible Senior Officer will be eligible for toll reimbursement through the AT&T Toll Discount Program under the terms and conditions that apply to senior management employees Eligible for Retirement-Related Benefits, under the same terms and conditions that applied immediately prior to the CIC to active senior management employees.

13. VACATION:

A CIC Eligible Senior Officer should make every reasonable effort, consistent with the needs of the business, to use all vacation, personal days, and floating holidays to which he or she is eligible before his or her Final Payroll Date. If the CIC Eligible Senior Officer is unable to do so, he or she will be paid for any unused (earned and unearned) vacation days for the calendar year in which his or her Final Payroll Date occurs and any approved and un-expired carry-over days from the prior year in accordance with AT&T policy at that time. The CIC Eligible Senior Officer will not receive pay in lieu of floating holidays and management personal days if these days are not taken prior to his or her Final Payroll Date, except for those CIC Eligible Senior Officers in the states of California, Illinois or Ohio, who will receive such payments as may be mandated by state law.

14. MEDICAL/DENTAL COVERAGE:

The extension and cost of medical and dental coverage for a CIC Eligible Senior Officer who is Eligible for Retirement-Related Benefits will be in accordance with the terms of the AT&T Corp. Post-Retirement Welfare Benefits Plan, or the successor to such plan, as amended from time to time. The Company will provide continuation of medical coverage and dental coverage under the AT&T Medical Expense Plan and/or the AT&T Dental Expense Plan for Active Employees, respectively, for each CIC Eligible Senior Officer who is not Eligible for Retirement-Related Benefits, and his or her Class I dependents, Domestic Partner and Domestic Partner's Children (as those terms are defined in the AT&T Medical Expense Plan) (provided that such Class I dependents, Domestic Partner and Domestic Partner's Children were covered by the AT&T Medical Expense Plan and/or the AT&T Dental Expense Plan for Active Employees, or the successors to such plans, immediately prior to the CIC Eligible Senior Officer's Final Payroll Date), for up to eighteen (18) months following the month in which occurs the CIC Eligible Senior Officer's Final Payroll Date. Company-provided continuation of coverage under the AT&T Medical Expense Plan and/or the AT&T Dental Expense Plan for Active Employees, or the successors to such plans, as the plans may be amended from time to time, shall run concurrently with any rights to continuation of coverage the CIC Eligible Senior Officer and/or his or her eligible dependents may otherwise have under COBRA.

If, at the end of the 18-month COBRA period, the CIC Eligible Senior Officer is not covered under another group health plan, the Company will make medical coverage (not dental coverage) available for the CIC Eligible Senior Officer and his or her Class I dependents, Domestic Partner and Domestic Partner's Children under the AT&T Separation Medical Plan, or the successor to such plan, on the same basis as for certain former senior managers. Should the Participant elect to take this coverage, the CIC Eligible Senior Officer will be responsible for the same portion of the annual premium for this medical coverage as is then applicable to similarly situated former senior managers covered under the AT&T Separation Medical Plan. Continuation of coverage under the AT&T Separation Medical Plan after the CIC Eligible Senior Officer's death is available to the CIC Eligible Senior Officer's spouse, if the spouse pays 100% of the annual premium for coverage. There will be no continuing dental coverage for the CIC Eligible Senior Officer or his or her Class I dependents, Domestic Partner and Domestic Partner's Children after the end of eighteen (18) months following the month in which occurs the CIC Eligible Senior Officer's Final Payroll Date, except as may otherwise be required by law. The Participant should immediately notify the Company if he or she becomes covered under another group health plan, at which time the Company's provision of medical coverage for the Participant and his or her Class I dependents, Domestic Partner and Domestic Partner's Children will cease.

All coverage continued for a CIC Eligible Senior Officer (and his or her eligible dependent(s)) will be the same as the coverage provided to the CIC Eligible Senior Officer while an active employee, to the extent available, subject to the terms of the AT&T Medical Expense Plan and/or the AT&T Dental Expense Plan or the AT&T Separation Medical Plan or the successors to such plans, as those plans may be amended from time to time.

15. TRANSITION COUNSELING:

A CIC Eligible Senior Officer will be entitled to receive the services of a Company-paid and Company-approved outplacement or career transition consultant in accordance with AT&T's current practices for Senior Officers in effect as of the CIC Eligible Senior Officer's Final Payroll Date; provided, however, that commencement of such transition counseling services, if desired, must begin prior to the first anniversary of the CIC Eligible Senior Officer's Final Payroll Date.

16. EXCISE TAX:

(a) If any element of compensation or benefit provided to a CIC Eligible Senior Officer under the terms of the Plan, or under any other plan, program, policy or other arrangement ("Benefit"), either alone or in combination with other elements of compensation and benefits paid or provided to such CIC Eligible Senior Officer, constitutes an "excess parachute payment", as that term is defined in Section 280G of the Internal Revenue Code and the regulations thereunder, and subjects such CIC Eligible Senior Officer to the excise tax pursuant to Section 4999 of the Internal Revenue Code, and any interest and penalties thereon (collectively, the "Excise Tax"), then such CIC Eligible Senior Officer shall be entitled to an additional lump-sum cash payment from the Company (the "Excise Tax Adjustment Payment"), subject to mandatory withholding, in an amount equal to the Excise Taxes (including the Excise Tax attributable to the Excise Tax Adjustment Payment related to the Benefit) plus any income and FICA taxes and any interest and penalties thereon attributable to the Excise Tax Adjustment Payment. For purposes of calculating an Excise Tax Adjustment Payment to any CIC Eligible Senior Officer in any year, it shall be assumed that the CIC Eligible Senior Officer is subject to Federal and applicable state and local income taxes at the highest marginal Federal and applicable state and local income tax rates, respectively, for the year in which the Excise Tax Adjustment Payment is paid. Also, the Excise Tax Adjustment Payment to any CIC Eligible Senior Officer shall reflect the Federal tax benefits attributable to the deduction of applicable state and local income taxes.

(b) Subject to the provisions of Section 16(c) below, all determinations required to be made under this Section 16, including whether and when an Excise Tax Adjustment Payment is required and the amount of such Excise Tax Adjustment Payment and the assumptions utilized in arriving at such determinations, shall be made by an independent accounting firm chosen by the Company (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations to the Company and to the CIC Eligible Senior Officer within thirty (30) business days of the receipt of notice from the Company or the CIC Eligible Senior Officer that there has been a Benefit provided to which this Section 16 applies (or such earlier time as requested by the Company). Any Excise Tax Adjustment Payment, as determined pursuant to this Section 16(b), shall be paid by the Company to the CIC Eligible Senior Officer within fifteen (15) business days of the receipt of the Accounting Firm's determination.

(c) (i) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding, or in the opinion of independent counsel agreed upon by the Company and the CIC Eligible Senior Officer, that the Excise Tax payable by the CIC Eligible Senior Officer on the Benefit is less than the amount initially taken into account under Section 16(a) for purposes of calculating the Excise Tax Adjustment Payment related to such Benefit, the Accounting Firm shall recalculate the Excise Tax Adjustment Payment to reflect the actual Excise Tax related to such Benefit. Within thirty (30) business days following the CIC Eligible Senior Officer's receipt of notice of the results of such recalculation from the Accounting Firm and/or the Company, the CIC Eligible Senior Officer shall repay to the Company the excess of the initial Excise Tax Adjustment Payment over the recalculated Excise Tax Adjustment Payment.

(ii) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding, or in the opinion of an independent counsel agreed upon by the Company and the CIC Eligible Senior Officer, that the Excise Tax payable by the CIC Eligible Senior Officer on the Benefit is more than the amount initially taken into account under Section 16(a) for purposes of calculating the Excise Tax Adjustment Payment, the Accounting Firm shall recalculate the Excise Tax Adjustment Payment to reflect the actual Excise Tax. Within fifteen (15) business days following the Company's receipt of notice of the results of such recalculation from the Accounting Firm, the Company shall pay to the CIC Eligible Senior Officer the excess of the recalculated Excise Tax Adjustment Payment over the initial Excise Tax Adjustment Payment.

(d) All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(e) The CIC Eligible Senior Officer shall notify the Company in writing of any written claim by the Internal Revenue Service that, if successful, would require the payment by the Company of an Excise Tax Adjustment Payment or the recalculation of an Excise Tax Adjustment Payment. The notification shall apprise the Company of the nature of such claim, including (1) a copy of the written claim from the Internal Revenue Service, (2) the identification of the element of compensation and/or benefit that is the subject of such Internal Revenue Service claim, and (3) the date on which such claim is requested to be paid. Such notification shall be given as soon as practicable but no later than ten (10) business days after the CIC Eligible Senior Officer actually receives notice in writing of such claim.

Within ten (10) business days following receipt of the notification of the Internal Revenue Service written claim from the CIC Eligible Senior Officer, the Company shall pay to the CIC Eligible Senior Officer an Excise Tax Adjustment Payment, or the excess of a recalculated Excise Tax Adjustment Payment over the initial Excise Tax Adjustment Payment, as applicable, related to the element of compensation and/or benefit which is the subject of the Internal Revenue Service claim. Within ten (10) business days following such payment to the CIC Eligible Senior Officer, the CIC Eligible Senior Officer shall provide to the Company written evidence that he or she had paid the claim to the Internal Revenue Service (the United States Treasury).

The failure of the CIC Eligible Senior Officer to properly notify the Company of the Internal Revenue Service claim (or to provide any required information with respect thereto) shall not affect any rights granted to the CIC Eligible Senior Officer under this Section 16, except to the extent that the Company is materially prejudiced in the challenge to such claim as a direct result of such failure. If the Company notifies the CIC Eligible Senior Officer in writing, within sixty (60) business days following receipt from the CIC Eligible Senior Officer of notification of the Internal Revenue Service claim, that it desires to contest such claim, the CIC Eligible Senior Officer shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company and reasonably acceptable to the CIC Eligible Senior Officer;

(iii) cooperate with the Company in good faith in order to effectively contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim if the Company elects not to assume and control the defense of such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the CIC Eligible Senior Officer harmless, on an after-tax basis, for any Excise Tax, income tax and FICA tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 16, the Company shall have the right, at its sole option, to assume the control of all proceedings in connection with such contest, in which case it may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim, and may direct the CIC Eligible Senior Officer to sue for a refund or contest the claim in any permissible manner, and the CIC Eligible Senior Officer agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, that any extension of the statute of limitations relating to payment of tax for the taxable year of the CIC Eligible Senior Officer with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's rights to assume the control of the contest shall be limited to issues with respect to which an Excise Tax Adjustment Payment would be payable hereunder, and the CIC Eligible Senior Officer shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority. To the extent that the contest to the Internal Revenue Service claim is successful, the Excise Tax Adjustment Payment related to the element of compensation and/or benefit that was the subject of the claim shall be recalculated in accordance with the provisions of Section 16(c)(ii).

17. LEGAL FEES:

In the event that it shall be necessary or desirable for a CIC Eligible Senior Officer to retain legal counsel or incur other costs and expenses in connection with enforcement of his or her rights under the Plan, including this Appendix A, or other matters directly related to the CIC Eligible Senior Officer's termination from employment with the Company , the Company shall reimburse the CIC Eligible Senior Officer for his or her reasonable attorneys' fees and costs and expenses if a final decision in connection with a material issue of the litigation (or arbitration) is issued in the CIC Eligible Senior Officer's favor by an arbitrator or a court of competent jurisdiction.

18. NO AMENDMENT:

Notwithstanding any other provision of this Plan, unless required by applicable law, upon the occurrence of a CIC, no amendment shall be made to the Plan, including this Appendix A, by the AT&T Board of Directors (or the successor board), by the Company (or the successor to the Company), by any committee, any officer, any employee of the Company (or the successor to the Company) or by any other party, to suspend, modify, or eliminate the level or types of benefits that are applicable upon the occurrence of a CIC, or to eliminate the restrictions contained in this sentence, and no such amendment to the AT&T Senior Officer Separation Plan, including this Appendix A, made in violation of this provision, shall be effective.

19. SUCCESSORS:

The obligation of the Company under this Appendix A shall be binding upon any assignee or successor in interest thereto. The Company shall not merge or consolidate with any other corporation, or liquidate or dissolve, or transfer assets or business operations, in a transaction in which the employment of employees is transferred to such other corporation, or to the purchaser of such assets or business operations, without making suitable arrangements for the payment of any benefits which are or may become payable under this Appendix A, and for the assumption by such successor employer of the obligations set forth in this Appendix A.

Exhibit 10(iii)(A)6

July 29, 2003

Ms. Betsy Bernard

Dear Betsy:

This letter agreement ("the Agreement") completely replaces Section (3) Paragraph (e) of your employment agreement dated October 1, 2002 detailing your special individual non-qualified pension agreement, and supercedes all other oral and written communication on the subject.

This Agreement will establish an individual non-qualified pension arrangement ("Individual Pension"), which, subject to the terms and conditions below, will provide you a benefit payable from AT&T Corp. (the "Company") operating assets upon your retirement from the Company. This Individual Pension will vest on April 1, 2006 contingent upon continued employment with the Company, provided, however, that the Individual Pension will immediately vest for Company-initiated terminations for other than "Cause" (as defined), for terminations due to death, disability, or Good Reason (as defined) occurring on or after the effective date of this Agreement, or if the Company is subject to a Change in Control ("CIC"), as defined in the AT&T 1997 Long Term Incentive Program. Only for termination for Cause or in the event of your voluntary termination prior to vesting will this Individual Pension be null and void in its entirety. In addition, this Individual Pension is subject to the provisions of the AT&T Non-Competition Guideline.

With respect to the amount payable under this Individual Pension at your retirement/termination, the single life annual annuity amount payable will be determined as (a) minus (b) as set forth in the charts below.

(a) the single life annual pension annuity benefits calculated in accordance with the table set forth below:

Year of Retirement/ Termination	Percentage of Final 3 Year Average Total Cash Compensation (Base Pay plus Actual Bonus Paid in Year)
2003	10.25%
2004	12.30%
2005	15.20%
2006	17.25%
2007	19.30%
2008	21.35%
2009	23.40%
2010	25.45%
2011	27.50%
2012	29.55%
2013	31.60%
2014	33.65%
2015	36.40%
2016	39.15%
2017	41.90%
2018	44.65%
2019	47.40%
2020	50.00%

(b) any single life annual annuity benefits payable from AT&T, i.e. pension benefits under the AT&T Management Pension Plan (AT&TMPP), AT&T Non Qualified Pension Plan (AT&TNQPP), AT&T Excess Benefit and

Compensation Plan (AT&TEBCPP), minimum retirement benefits under the AT&T Senior Management Long Term Disability and Survivor Protection Plan (AT&TSMLTD&SPP) if applicable, as well as by any qualified and nonqualified pension benefits from prior employers.

Joint and survivor benefits on your death, whether your death occurs as an active employee or following your termination, will be governed by the administrative guidelines applicable to this Agreement.

In the event of your involuntary termination within two years following a CIC for reasons other than for Cause or if you terminate employment for Good Reason within two years following a CIC, your benefit under this Individual Pension will be calculated by accelerating the Individual Pension schedule above by adding three years to the schedule, i.e. the applicable percentage will be that associated with the "Year of Retirement/Termination" three years from your +actual termination year. In addition, the cash compensation used in calculating the final three year average cash compensation will not use cash compensation for years in which you did not hold the position of President- AT&T Corp.

For purposes of this Agreement:

a) "Cause" shall mean:

i. your conviction (including a plea of guilty or nolo contendere) of a crime including theft, fraud, dishonesty or moral turpitude;

ii. violation by you of the Company's Code of Conduct or Non-Competition Guideline;

iii. gross omission or gross dereliction of any statutory, common law or other duty of loyalty to the Company or any of its affiliates; or

iv. repeated failure to carry out the duties of your position despite specific instruction to do so.

b) "Good Reason" prior to a CIC shall mean the occurrence without your express written consent of any of the following events:

i. Your demotion to a position which is not of a rank and responsibility comparable to members of the current Operations Group or those of a similar/replacing governance body; provided, however, that the Company's decision not to continue the Operations Group shall not be Good Reason, and provided, further, that (1) changes in reporting relationships shall not, alone, constitute Good Reason and/or (2) a reduction in your business unit's budget or a reduction of your business unit's head count, by themselves, do not constitute Good Reason; or

ii. A reduction in your "Total Annual Compensation" (defined as the sum of your Annual Base Salary Rate, Target Annual Incentive and "Target Annual Long Term Incentive Grants") for any calendar or fiscal year, as applicable, to an amount that is less than the Total Annual Compensation that existed in the prior calendar or fiscal year, as applicable. For purposes of this Paragraph (b)(ii) the dollar value of the "Target Annual Long Term Incentive Grants" shall exclude the value of any special one-time or periodic long-term incentive grants, and shall be determined by valuing Performance Shares, Stock Units, Restricted Stock, Restricted Stock Units, etc., at the market share price utilized in valuing the annual Senior Management compensation structures in the materials presented to the Compensation and Employee Benefits Committee of the Company's Board of Directors ("the Committee") when authorizing such grants, and assuming 100% performance achievement if such grants include performance criteria. Stock Options and Stock Appreciation Rights will be valued by the Black-Scholes methodology (and related share price) as utilized in the materials presented to the Committee when authorizing such grants.

c) "Good Reason" within two years following a CIC shall be in accordance with the October 23, 2000 CIC Board Resolutions, which include reduction in authority or responsibility, reduction in compensation, and business relocation beyond a reasonable commuting distance.

Notwithstanding the foregoing, the Company may require you to change to an equivalent executive position within the Company with substantially similar levels of duties or responsibilities without causing Good Reason to occur.

You must notify the Company within 60 days following knowledge of an event you believe constitutes Good Reason, or such event shall not constitute Good Reason hereunder.

This agreement may not be amended or waived, unless the amendment or waiver is in a writing signed by you and the Company's Executive Vice President-Human Resources.

It is understood and agreed that you will not talk about, write about, or otherwise publicize the terms or existence of this Agreement or any fact concerning its execution or implementation unless required by law or to enforce the terms of this Agreement. You may, however, discuss its contents with your spouse, legal and/or financial counselor, provided that you advise them of your obligations of confidentiality and that any disclosures made by any of them may be treated by the Company as disclosures made by you for purposes of this provision.

THIS AGREEMENT IS NOT AN EMPLOYMENT CONTRACT AND SHOULD NOT BE CONSTRUED OR INTERPRETED AS CONTAINING ANY GUARANTEE OF CONTINUED EMPLOYMENT. THE EMPLOYMENT RELATIONSHIP WITH THE COMPANY IS BY MUTUAL CONSENT ("EMPLOYMENT-AT-WILL"). THIS MEANS THAT EMPLOYEES HAVE THE RIGHT TO TERMINATE THEIR EMPLOYMENT AT ANY TIME FOR ANY REASON. LIKEWISE, THE COMPANY RESERVES THE RIGHT TO DISCONTINUE YOUR EMPLOYMENT WITH OR WITHOUT CAUSE AT ANY TIME AND FOR ANY REASON.

You understand that the terms of this Agreement shall apply to the Company and its successors. The Company specifically reserves the right to assign the terms of this Agreement to any successor, whether the successor is the result of a sale, purchase, merger, consolidation, asset sale, divestiture or spin-off or any combination or form thereof. No sale, purchase, merger, consolidation, asset sale, divestiture or spin-off or any combination or form thereof by the Company shall be construed as a termination of your employment and will not be considered a termination for purposes of this Agreement.

The construction, interpretation and performance of this Agreement shall be governed by the laws of the State of New Jersey, without regard to its conflict of laws rule.

In addition, all of the benefits provided under this Agreement are subject to forfeiture if you violate the AT&T Non-Competition Guideline, a copy of which has been previously provided to you.

Betsy, I am happy to present this special pension arrangement to you. It recognizes the extraordinary contributions that we expect you to continue to make to our business. If you agree with the terms and conditions detailed above, sign and date this Agreement in the spaces provided below and return the original executed copy to me.

Sincerely,

Acknowledged and Agreed to:

/s/ Betsy Bernard	July 30, 2003
Betsy Bernard	Date

Exhibit 10(iii)(A)7

July 29, 2003

Mr. David Dorman

Dear Dave:

This letter agreement ("the Agreement") completely replaces Attachment E of your employment agreement dated December 1, 2000 detailing your special individual non-qualified pension agreement, and supercedes all other oral and written communication on the subject.

This Agreement will establish an individual non-qualified pension arrangement ("Individual Pension"), which, subject to the terms and conditions below, will provide you a benefit payable from AT&T Corp. (the "Company") operating assets upon your retirement from the Company. This Individual Pension will be immediately vested and only for termination for "Cause" (as defined) will this Individual Pension be null and void in its entirety. In addition, this Individual Pension is subject to the provisions of the AT&T Non-Competition Guideline.

With respect to the amount payable under this Individual Pension at your retirement/termination, the single life annual annuity amount payable will be determined as (a) minus (b) as set forth in the charts below:

(a) the single life annual pension annuity benefits calculated in accordance with the table set forth below:

Year of Retirement/ Termination	Percentage of Final 3 Year Average Total Cash Compensation (Base Pay plus Actual Bonus Paid in Year)
2003	27.50%
2004	31.10%
2005	34.70%
2006	38.30%
2007	41.90%
2008	45.50%
2009	49.10%
2010	52.70%
2011	56.30%
2012	60.00%
2013	60.00%
2014	60.00%
2015	60.00%
2016	60.00%
2017	60.00%
2018	60.00%
2019	60.00%

(b) any single life annual annuity benefits payable from AT&T, i.e. pension benefits under the AT&T Management Pension Plan (AT&TMPP), AT&T Non Qualified Pension Plan (AT&TNQPP), AT&T Excess Benefit and Compensation Plan (AT&TEBCPP), minimum retirement benefits under the AT&T Senior Management Long Term Disability and Survivor Protection Plan (AT&TSMLTD&SPP) if applicable, as well as by any qualified and nonqualified pension benefits from prior employers.

Joint and survivor benefits on your death, whether your death occurs as an active employee or following your termination, will be governed by the administrative guidelines applicable to this Agreement.

In the event of your involuntary termination within two years following a Change in Control ("CIC"), as defined in the AT&T 1997 Long Term Incentive

Program, for reasons other than for Cause or if you terminate employment for Good Reason (as defined) within two years following a CIC, your benefit under this Individual Pension will be calculated by accelerating the Individual Pension schedule above by adding three years to the schedule, i.e. the applicable percentage will be that associated with the "Year of Retirement/Termination" three years from your actual termination year. In addition, the cash compensation used in calculating the final three year average cash compensation will not use cash compensation for years in which you did not hold the position of Chief Executive Officer.

For purposes of this Agreement:

a) "Cause" shall mean:

i. your conviction (including a plea of guilty or nolo contendere) of a crime including theft, fraud, dishonesty or moral turpitude;

ii. violation by you of the Company's Code of Conduct or Non-Competition Guideline;

iii. gross omission or gross dereliction of any statutory, common law or other duty of loyalty to the Company or any of its affiliates; or

iv. repeated failure to carry out the duties of your position despite specific instruction to do so.

b) "Good Reason" prior to a CIC shall mean the occurrence without your express written consent of any of the following events:

i. Your demotion to a position which is not of a rank and responsibility comparable to members of the current Operations Group or those of a similar/replacing governance body; provided, however, that the Company's decision not to continue the Operations Group shall not be Good Reason, and provided, further, that (1) changes in reporting relationships shall not, alone, constitute Good Reason and/or (2) a reduction in your business unit's budget or a reduction of your business unit's head count, by themselves, do not constitute Good Reason; or

ii. A reduction in your "Total Annual Compensation" (defined as the sum of your Annual Base Salary Rate, Target Annual Incentive and "Target Annual Long Term Incentive Grants") for any calendar or fiscal year, as applicable, to an amount that is less than the Total Annual Compensation that existed in the prior calendar or fiscal year, as applicable. For purposes of this Paragraph (b)(ii) the dollar value of the "Target Annual Long Term Incentive Grants" shall exclude the value of any special one-time or periodic long-term incentive grants, and shall be determined by valuing Performance Shares, Stock Units, Restricted Stock, Restricted Stock Units, etc., at the market share price utilized in valuing the annual Senior Management compensation structures in the materials presented to the Compensation and Employee Benefits Committee of the Company's Board of Directors ("the Committee") when authorizing such grants, and assuming 100% performance achievement if such grants include performance criteria. Stock Options and Stock Appreciation Rights will be valued by the Black-Scholes methodology (and related share price) as utilized in the materials presented to the Committee when authorizing such grants.

c) "Good Reason" within two years following a CIC shall be in accordance with the October 23, 2000 CIC Board Resolutions, which include reduction in authority or responsibility, reduction in compensation, and business relocation beyond a reasonable commuting distance.

Notwithstanding the foregoing, the Company may require you to change to an equivalent executive position within the Company with substantially similar levels of duties or responsibilities without causing Good Reason to occur.

You must notify the Company within 60 days following knowledge of an event you believe constitutes Good Reason, or such event shall not constitute Good Reason hereunder.

This agreement may not be amended or waived, unless the amendment or waiver is in a writing signed by you and the Company's Executive Vice President-Human Resources.

It is understood and agreed that you will not talk about, write about, or otherwise publicize the terms or existence of this Agreement or any fact concerning its execution or implementation unless required by law or to enforce the terms of this Agreement. You may, however, discuss its contents with your spouse, legal and/or financial counselor, provided that you advise them of your obligations of confidentiality and that any disclosures made by any of them may be treated by the Company as disclosures made by you for purposes of this provision.

THIS AGREEMENT IS NOT AN EMPLOYMENT CONTRACT AND SHOULD NOT BE CONSTRUED OR INTERPRETED AS CONTAINING ANY GUARANTEE OF CONTINUED EMPLOYMENT. THE EMPLOYMENT RELATIONSHIP WITH THE COMPANY IS BY MUTUAL CONSENT ("EMPLOYMENT-AT-WILL"). THIS MEANS THAT EMPLOYEES HAVE THE RIGHT TO TERMINATE THEIR EMPLOYMENT AT ANY TIME FOR ANY REASON. LIKEWISE, THE COMPANY RESERVES THE RIGHT TO DISCONTINUE YOUR EMPLOYMENT WITH OR WITHOUT CAUSE AT ANY TIME AND FOR ANY REASON.

You understand that the terms of this Agreement shall apply to the Company and its successors. The Company specifically reserves the right to assign the terms of this Agreement to any successor, whether the successor is the result of a sale, purchase, merger, consolidation, asset sale, divestiture or spin-off or any combination or form thereof. No sale, purchase, merger, consolidation, asset sale, divestiture or spin-off or any combination or form thereof by the Company shall be construed as a termination of your employment and will not be considered a termination for purposes of this Agreement.

The construction, interpretation and performance of this Agreement shall be governed by the laws of the State of New Jersey, without regard to its conflict of laws rule.

In addition, all of the benefits provided under this Agreement are subject to forfeiture if you violate the AT&T Non-Competition Guideline, a copy of which has been previously provided to you.

Dave, I am happy to present this special pension arrangement to you. It recognizes the extraordinary contributions that we expect you to continue to make to our business. If you agree with the terms and conditions detailed above, sign and date this Agreement in the spaces provided below and return the original executed copy to me.

Sincerely,

Acknowledged and Agreed to:

/s/ Dave Dorman	July 30, 2003
Dave Dorman	Date

Exhibit 12

ATTCorp.
Computation of Ratio of Earnings to Fixed Charges
(Unaudited) (Dollars in millions)

	For the Nine Months Ended September 30, 2003
Income from continuing operations before income taxes	$ 2,196
Add: distributions of less than 50% owned affiliates	5
Add: fixed charges, excluding capitalized interest	1,039
Total earnings from continuing operations before income taxes and fixed charges	$ 3,240
Fixed Charges:	
Total interest expense	$ 917
Capitalized interest	26
Interest portion of rental expense	122
Total fixed charges	$ 1,065
Ratio of earnings to fixed charges	3.0

Exhibit 99.1

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

I, David W. Dorman, Chairman of the Board and Chief Executive Officer of AT&T Corp., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of AT&T Corp.

Dated: November 11, 2003

/s/ David W. Dorman

By: David W. Dorman

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.2

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

I, Thomas W. Horton, Senior Executive Vice President, Chief Financial Officer of AT&T Corp., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of AT&T Corp.

Dated: November 11, 2003 /s/ Thomas W. Horton

By: Thomas W. Horton

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Form 10-Q/A

AT&T CORP - T

Filed: January 09, 2004 (period: September 30, 2003)

Amendment to a previously filed 10-Q

Table of Contents

PART I

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A
(Amendment No. 1)

.X. QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

OR

.... TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________to ____________

Commission file number 1-1105

AT&T CORP.

A New York Corporation [redacted]

One AT&T Way, Bedminster, New Jersey 07921

Telephone - Area Code 908-221-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes .X No ...

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes .X No ...

At October 31, 2003, the following shares of stock were outstanding: AT&T common stock 789,873,024

Explanatory Note

The undersigned registrant hereby files Amendment No. 1 to amend the following Items with respect to its Quarterly Report on Form 10-Q for the period ended September 30, 2003:

1) We have amended Item 4, "Controls and Procedures," to revise the language and to provide greater details concerning changes in our internal controls.

2) The registrant has amended Item 6, "Exhibits and Reports on Form 8-K," to correct the numbering of the Exhibits. We have also refurnished with different Exhibit numbers the certifications provided pursuant to Section 906 of the Sarbanes Oxley Act of 2002 and filed new certifications pursuant to Section 302 of the Act.

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we completed an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 or 15d-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them timely to material information required to be included in our Exchange Act filings. Other than as described below, there have not been any changes in our internal controls over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15 or 15d-15 or otherwise that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

In September 2003, in conjunction with our review of accounting and internal control systems, the Company determined that the liability on the balance sheet (included in accounts payable) relating to costs incurred in 2001 and 2002 pertaining to access and other connection expense was understated by $125 million. Since the impact to prior years' annual financial statements was not material, the Company recorded an additional expense of $125 million ($77 million after-tax) in the third quarter of 2003 to reflect the proper estimate of the liability.

A review was conducted by outside legal counsel, under the direction of the Audit Committee. This review found that two employees, one lower-level and one mid-level management employee, circumvented the internal controls process resulting in the financial impacts noted above. The Company made the appropriate personnel changes and enhanced its internal controls accordingly. The principal focus of these enhancements included higher skill levels of those performing the function (CPA required for mid-level manager), changes in the approval process for accruing access expense, as well as additional reviews of such expense and related reconciliations by higher levels of management (Business Unit Controller and AT&T Controller). In addition, actual access payments are reviewed quarterly to further substantiate the recorded liability.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	
10(iii)(A)1	Form of Amendment to AT&T Excess Benefit and Compensation Plan dated as of July 28, 2003 to AT&T Excess Benefit and Compensation Plan, as amended and restated effective October 1, 1996 (incorporated by reference to Exhibit (10)(iii)(A)9 to Form 10-K for 1996, File No. 1-1105). *
10(iii)(A)2	Form of Amendment to AT&T Non-Qualified Pension Plan dated as of July 28, 2003 to AT&T Non-Qualified Pension Plan, as amended and restated January 1, 1995 (incorporated by reference to Exhibit (10)(iii)(A)10 to Form 10-K for 1996, File No. 1-1105). *
10(iii)(A)3	Form of Amendment to AT&T Senior Management Incentive Award Deferral Plan dated as of July 28, 2003 to AT&T Senior Management Incentive Award Deferral Plan, as amended effective January 21, 1998 (incorporated by reference to Exhibit (10)(iii)(A)11 to Form 10-K for 1998, File No. 1-1105). *
10(iii)(A)4	Form of Amendment to AT&T Corp. Senior Management Universal Life Insurance Program dated as of July 28, 2003 to AT&T Corp. Senior Management Universal Life Insurance Program effective October 1, 1999 (incorporated by reference to Exhibit (10)(iii)(A)16 to Form 10-K for 2000, File No. 1-1105). *
10(iii)(A)5	Form of Amendment of Appendix A of AT&T Senior Officer Separation Plan dated as of July 28, 2003 to AT&T Senior Officer Severance Plan, as amended October 30, 1997 (incorporated by reference to Exhibit (10)(iii)(A)18 to Form 10-K for 1997, File No. 1-1105), and as amended, restated and renamed AT&T Senior Officer Separation Plan as of January 1, 2003 (incorporated by reference to Exhibit (10)(iii)(A)18 to Form 10-K for 2002, File No. 1-1105). *
10(iii)(A)6	Form of Employment Agreement between AT&T Corp. and Betsy J. Bernard as amended on July 25, 2003 to original agreement dated April 9, 2001 (incorporated by reference to Exhibit (10)(iii)(A)21 to Form 10-K for 2001. File No. 1-1105) including amendment dated October 1, 2002 (incorporated by reference to Exhibit (10)(iii)(A)21 to Form 10-K for 2002, File No. 1-1105). *
10(iii)(A)7	Form of Employment Agreement between AT&T Corp. and David W. Dorman as amended on July 25, 2003 to original agreement dated May 18, 2001 (incorporated by reference to Exhibit (10)(iii)(A)35 to Form 10-K for 2001) including amendment dated December 31, 2002 (incorporated by reference to Exhibit (10)(iii)(A)34 to Form 10-K for 2002, File No. 1-1105). *
12	Computation of Ratio of Earnings to Fixed Charges *
31.1	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the

		Sarbanes-Oxley Act of 2002.
	32.1	Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
	32.2	Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **

(b) Reports on Forms 8-K

Form 8-K dated July 16, 2003 was filed pursuant to Item 5 on July 17, 2003. Form 8-K dated July 24, 2003 was furnished pursuant to Item 7 and Item 9 on July 24, 2003. Form 8-K dated July 24, 2003 was furnished pursuant to Item 12 on July 28, 2003.

* Documents filed previously with Form 10-Q for period ended September 30, 2003.

**Documents furnished previously with Form 10-Q for period ended September 30, 2003 as Exhibits 99.1 and 99.2, respectively.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AT&T Corp.

/s/ N. S. Cyprus

By: N. S. Cyprus
Vice President and Controller
(Principal Accounting Officer)

Date: January 8, 2004

Exhibit 31.1

Chief Executive Officer Certification

AT&T Corp.

Certifications Pursuant To Section 302 of
The Sarbanes-Oxley Act of 2002

I, David W. Dorman, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of ATT ;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting ; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 8, 2004

/s/ David W. Dorman

Chief Executive Officer

Exhibit 31.2

Chief Financial Officer CERTIFICATION

AT&T Corp.

Certifications Pursuant To Section 302 of
The Sarbanes-Oxley Act of 2002

I, Thomas W. Horton, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of ATT ;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting ; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 8, 2004

/s/ Thomas W. Horton

Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

I, David W. Dorman, Chairman of the Board and Chief Executive Officer of AT&T Corp., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of AT&T Corp.

Dated: November 11, 2003

/s/ David W. Dorman

By: David W. Dorman

Exhibit 32.2

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

I, Thomas W. Horton, Senior Executive Vice President, Chief Financial Officer of AT&T Corp., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of AT&T Corp.

Dated: November 11, 2003

/s/ Thomas W. Horton

By: Thomas W. Horton

AT&T Annual Report 2002

Networking Makes Our Customers Strong

Customers Make Us Strong

AT&T: The World's Networking Company

Networking Makes Our Customers Strong

Our customers continue to benefit from our leadership role in networking.

- Continuing to outperform the industry in customer satisfaction and innovation
- Ongoing investment to meet the needs of enterprises and individuals who place a high value on communications
- Offering unmatched capabilities in managing end-to-end mission critical business applications
- Growing in our role as the industry-leading Internet protocol (IP) provider
- Continuing to be recognized as a critical partner and a preeminent provider of high-quality services
- Applying AT&T Labs expertise to networking solutions of tomorrow while meeting customer needs today
- Delivering to customers a real return on their communications investment through more than 36,000 networking experts
- Delivering international direct-dial service to more than 250 countries and territories, and in-bound calling services for travelers in 200 countries through AT&T Direct Service
- Offering real competitive choice in local, long distance and Internet services

Customers Make Us Strong

AT&T continues to benefit by satisfying the needs of its customers.

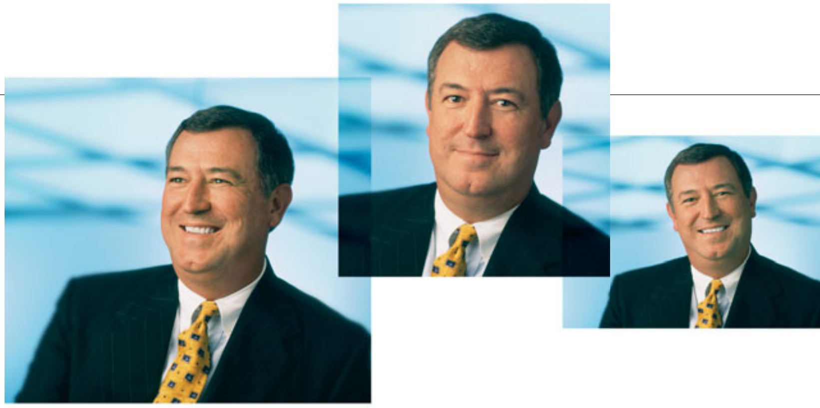
- Managing nearly 50 million consumer relationships and 4 million business customers
- Creating one of the strongest financial structures and best balance sheets in the industry
- Realizing annual revenue of more than $37 billion
- Leading the industry in customer satisfaction
- Forming a unified communications services company with approximately 71,000 employees in 56 countries
- Ranking as one of the largest online billers with more than 1 million residential customers billed online
- Serving as the official provider of personal telecommunications services to military personnel serving at 529 military bases and camps worldwide and on more than 200 U.S. Navy ships
- Serving more than 2.4 million households, with residential AT&T Local Service in California, Georgia, Illinois, Michigan, New Jersey, New York, Ohio and Texas as of December 2002, with more states to follow

AT&T: The World's Networking Company

AT&T continues to operate the most sophisticated and reliable global network.

- Having one of the most experienced leadership teams in the industry
- Carrying more than 310 million long distance calls on an average business day, with more than 99.99 percent completed on the first try
- Handling approximately 2,700 trillion bytes (terabytes) of data on an average business day
- Leading in long distance backbone optical fiber, with more than 50,000 route miles, plus more than 19,600 route miles of local metro fiber
- Leading the industry in IP traffic growth
- Operating 18 Internet data centers on three continents
- Having approximately 2,900 points of presence in 850 cities across 60 nations
- Operating with 95 intelligent optical switches online
- Providing, first ever, 10-gigabit-per-second service (OC-192) coast-to-coast
- Leading in Dense Wave Division Multiplexing with 1,600 systems deployed, including Ultravailable Networks for enterprise customers

With significant financial strength and leverage, a world-class network and one of the most qualified management teams focused on transforming the business, AT&T is committed and poised to meet the needs of its customers better than anyone in the industry.



To my fellow shareowners: AT&T launched a new era in 2002 – an era marked by more than just a change in the chairman's office. We spun off our broadband operations. We completed our restructuring plan. And we introduced a new management team focused on serving customers and building shareowner value.

At the same time, we accelerated our efforts to transform AT&T from a primarily voice-services business to the largest provider of data services globally. We reached out to expand our relationships with clients around the world. And we realigned to focus less on individual products and more on integrated customer solutions.

In short, we rededicated ourselves to AT&T's 118-year legacy of service, quality, reliability and innovation. And we committed to fulfilling our mission as "the world's networking company."

While we focused on meeting our goals and seeking new market opportunities, waves of uncertainty crashed around us. The world braced for terror and war. The global economy stumbled. And the telecom industry suffered bankruptcies and accounting scandals that dragged down some of our major competitors.

Those telecom schemes conjured up phony market economics and phantom prices that no competitor could fairly match. The companies involved saw their reputations rightly ravaged.

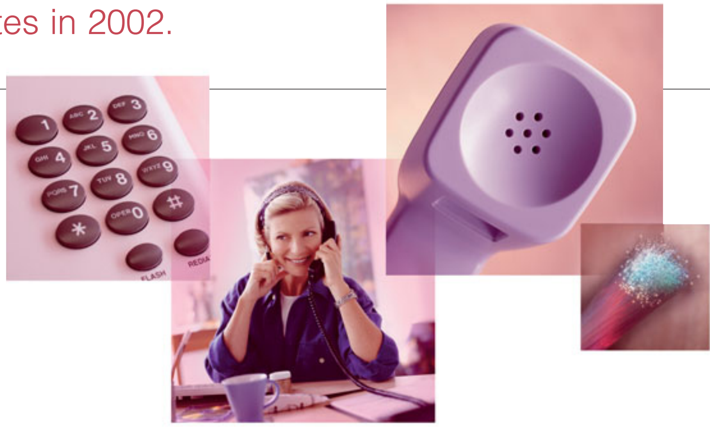
AT&T, on the other hand, rose above the fray. We remained focused on our customers. And we met our financial commitments during every quarter of 2002, performing with both vigor and integrity. Today, we stand tall – proud to be one of the world's strongest telecommunications providers.

Our strength stems from our values, a set of principles we call "Our Common Bond." Formally adopted in 1992, the values of "Our Common Bond" have been hallmarks of the AT&T culture for more than 100 years: respect for individuals, dedication to helping customers, highest standards of integrity, innovation and teamwork. Our commitment to these principles cannot be compromised.

Nor can our commitment to our shareowners. That's why we diligently overhauled our balance sheet. Our restructuring effort reduced AT&T's net debt* from $56.2 billion entering 2001 to $12.9 billion at year-end 2002. We now enjoy the lowest overall net debt level among the major players in our industry. *In 2001, net debt of $56.2 billion was net of $0.1 billion of cash and $8.7 billion of monetizations. In 2002, net debt of $12.9 billion was net of $8.5 billion of cash, $0.5 billion of monetizations and $0.7 billion of fluctuations in foreign debt value.

To maintain and magnify our financial strength, we're taking a disciplined approach to our ongoing cost and capital structure. Our network investments are largely behind us. We spent $3.9 billion in capital expenditures in 2002, roughly half the 1999 level, and we'll continue to moderate our spending going forward.

With a focus on innovation and quality, AT&T Consumer is expanding its portfolio of services, including offering local service (with long distance) in more and more states. AT&T Consumer extended local service from two states in 2001 to eight states in 2002.



We expect the majority of our 2003 capital expenditures to be demand-driven and success-based. The primary focus for the remaining capital expenditures will be enhancing our products and processes to improve service and customer satisfaction. So while our distressed competitors struggle to keep the lights on, we'll continue to pump up productivity and make it easier for customers to do business with AT&T.

Our business customers are already seeing results from the $500 million we invested in process improvements in 2002. We slashed cycle times an average of 30 percent last year. That means we cut days – and in some cases weeks – off the interval between a customer's order and activation of their services. The result: We're setting new standards for sales, provisioning, billing, and service that our competitors simply can't match.

Our world-class standards and services are attracting new business customers, and winning back others concerned about our competitors' well-publicized troubles. We continue to gain market share as companies increasingly value the reliability, sustainability, integrity and quality behind the AT&T brand. And we will continue to promote these advantages as we target new customers and take additional market share in 2003.

Maintaining our scale and broad customer base will be critical as we face ongoing declines in both consumer and business long distance voice revenue. Several trends are driving these declines:

• Customers are relying increasingly on wireless and Internet communications.

• As the regional Bell operating companies (RBOCs) enter long distance, competition and price pressures mount.

• Our success in attracting quality wholesale customers has shifted the proportions of retail and reduced-priced wholesale minutes that run on our network.

• Consumers are taking advantage of lower-priced products, such as prepaid cards and optional calling plans.

We are managing through these declines by scaling our growth investments. In 2002, we outperformed the industry and gained share in all the key growth areas of our business – business local, data, Internet protocol (IP) and managed services. These services represent our future; their growth helps offset erosion in long distance voice.

These services are also at the heart of the AT&T Business portfolio, which will be the primary driver of our future revenue. A leading global provider of enterprise communications solutions, AT&T Business delivered nearly $27 billion to our top line in 2002.

Meeting the communications needs of businesses worldwide, AT&T Business delivers the most reliable and secure enterprise networking solutions with local-to-global reach, end-to-end network management and world-class professional expertise.

For more than 4 million customers throughout the world, AT&T Business serves as a strategic partner. For large enterprise customers, we design, deploy, manage and enhance networks, ensuring industry-leading levels of continuity and security. Our services help these customers unlock the full value of their applications while managing complexity, improving productivity, and generating a return on their communications investments.

We are the undisputed industry leader in IP traffic, after being in sixth place only two years ago. Our IP traffic is growing at a rate three times faster than the rest of the industry. The AT&T network now carries one petabyte of IP traffic per day. To print that amount of data on paper, you'd need about 50 million trees – or a forest about the size of New Orleans. And you'd need to re-grow that forest every day.

The growth of AT&T Business will be fueled, in part, by AT&T Consumer, which contributed nearly $12 billion in 2002 revenue. AT&T Consumer manages nearly 50 million customer relationships with consumers, who count on us for long distance, local, Internet and transactional services such as prepaid cards and collect calling. If it were a standalone business, AT&T Consumer would rank among the Fortune 200.

We continue to expand our consumer-service portfolio. A key growth area is our local and long distance bundle for consumers and small businesses. We offer these combined services via the unbundled network elements platform, or UNE-P. That platform allows AT&T and other carriers to lease from the RBOCs the network elements needed to deliver services along the "last mile," which connects directly to the customer.

By the end of 2002, more than 2.4 million AT&T residential customers were enjoying the features and price benefits that result from UNE-P-based competition. As of this writing, our residential local customer base has grown to more than 2.7 million. We also have more than 500,000 access lines serving small businesses through UNE-P.

More consumers and small businesses will enjoy the benefits of competition thanks to a Federal Communications Commission decision announced in February 2003. The RBOCs lobbied furiously to eliminate UNE-P and reduce competitive choice. But the Commission voted to allow the states to decide what works and what doesn't, rather than impose a national "one-size-fits all" mandate. Now we will take our case to the states, and we will enter markets where the economic conditions allow us to make a reasonable return using UNE-P.

Our initial results prove that customers want choice and will support a competitive offer. We have earned mid single-digit market share or higher in our first eight markets. We doubled our number of all-distance customers in 2002. In the fourth quarter alone, the number grew more than 25 percent from the previous quarter.

With a shared commitment to Our Common Bond, values that bind the people of AT&T, we are dedicated to satisfying customer needs and building value for shareowners.

This pattern suggests strong opportunities for growth in new markets as well. We are confident that we will be offering all-distance service in a total of 14-17 markets by the end of 2003, with more markets to follow in 2004.

But getting there won't be easy. In the months ahead, the challenges facing our industry will continue. Current market signals point to ongoing economic weakness and lower information technology (IT) spending.

We recognize, however, that this downturn won't last forever. The economy will eventually rebound, IT spending will resume, and telecom's trials will end. We're preparing today for that turnaround by channeling our resources to keep our company strong and to position AT&T as one of the primary beneficiaries of an economic upswing.

We are the only long distance carrier upgrading its network and service portfolio. We are the only carrier enhancing its customer-facing processes and increasing its sales presence. And we are among the few carriers operating from a position of unquestioned financial flexibility and strength. So when the market recovers, our scale, scope and stability will make AT&T the company to beat.

That's why, despite the challenges, I feel so proud and privileged to be leading this company. While our competitors are still getting organized, we've already assembled all the ingredients for success – solid financials, a world-class global network, an intense customer focus and unshakable values.

Our people are passionate about satisfying customers and building shareowner value. We are working as one company, one network and one team to deliver a level of excellence that others must strive mightily to attain.

Outstanding innovation, enduring integrity, and a flawless customer experience... our customers, employees and you – our shareowners – should expect nothing less from the world's networking company.

David Dorman

David Dorman
Chairman and Chief Executive Officer

Financial Report Contents

AT&T CORP. AND SUBSIDIARIES

SEVEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA[1]

	2002	2001	2000	1999	1998	1997	1996
	(Unaudited) (Dollars in millions, except per share amounts)						
RESULTS OF OPERATIONS AND EARNINGS PER SHARE							
Revenue	$ 37,827	$ 42,197	$ 46,850	$ 49,609	$ 47,287	$ 46,226	$ 45,716
Operating income	4,361	7,832	12,793	12,544	7,632	6,835	8,341
Income (loss) from continuing operations	963	(2,640)	9,532	6,019	4,915	4,088	5,064
INCOME FROM CONTINUING OPERATIONS							
AT&T Common Stock Group:[2]							
Income	963	71	8,044	8,041	4,915	4,088	5,064
Earnings (loss) per basic share	1.29	(0.91)	11.54	13.04	9.18	7.65	9.60
Earnings (loss) per diluted share	1.26	(0.91)	11.01	12.61	9.10	7.65	9.60
Cash dividends declared per share	0.75	0.75	3.4875	4.40	4.40	4.40	4.40
Liberty Media Group:[2]							
(Loss) income	—	(2,711)	1,488	(2,022)	—	—	—
(Loss) earnings per basic and diluted share	—	(1.05)	0.58	(0.80)	—	—	—
ASSETS AND CAPITAL							
Property, plant and equipment, net	$ 25,604	$ 26,803	$ 26,083	$ 25,587	$ 21,780	$ 19,177	$ 16,871
Total assets — continuing operations	55,272	62,329	90,293	89,554	40,134	41,029	38,229
Total assets	55,272	165,481	242,802	169,499	59,550	67,690	63,669
Long-term debt	18,812	24,025	13,572	13,543	5,555	7,840	8,861
Total debt	22,574	34,159	42,338	25,091	6,638	11,895	11,334
Shareowners' equity	12,312	51,680	103,198	78,927	25,522	23,678	21,092
Debt ratio[3]	64.7%	86.3%	122.1%	83.7%	36.7%	57.2%	61.6%
OTHER INFORMATION							
Employees — continuing operations[4]	71,000	77,700	84,800	96,500	94,500	116,800	117,100
AT&T year-end stock price per share	$ 26.11	$ 37.19	$ 27.57	$ 80.81	$ 79.88	$ 65.02	$ 43.91

(1) Prior period amounts have been restated to reflect the spin-off of AT&T Broadband and the 1-for-5 reverse stock split, as applicable, both of which occurred on November 18, 2002.

(2) In connection with the March 9, 1999 merger with Tele-Communications, Inc., AT&T issued separate tracking stock for Liberty Media Group (LMG). LMG was accounted for as an equity investment prior to its split-off from AT&T on August 10, 2001. There were no dividends declared for LMG tracking stock. AT&T Common Stock Group results exclude LMG.

(3) Debt ratio reflects debt from continuing operations as a percent of total capital, excluding discontinued operations and LMG, (debt plus equity, excluding LMG and discontinued operations).

(4) Data provided excludes LMG.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AT&T Corp. (AT&T or the "Company") is among the world's communications leaders, providing voice and data communications services to large and small businesses, consumers and government agencies. We provide domestic and international long distance, regional and local communications services, and data and Internet communications services.

Restructuring of AT&T

In conjunction with the restructuring of AT&T announced on October 25, 2000, AT&T Broadband, AT&T Wireless, and Liberty Media Corporation have all been separated from AT&T.

On November 18, 2002, AT&T spun-off AT&T Broadband (which was primarily comprised of the AT&T Broadband segment) to AT&T shareowners. Simultaneously, AT&T Broadband combined with Comcast Corporation (Comcast). The combination was accomplished through a distribution of stock to AT&T shareowners, who received 0.3235 of a share (1.6175 shares adjusted for the 1-for-5 reverse stock split) of Comcast Class A common stock for each share of AT&T they owned at market close on November 15, 2002, the record date. The Internal Revenue Service (IRS) ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. Approximately 1.2 billion new Comcast shares were issued to AT&T shareowners at a value of approximately $31.1 billion, based on the Comcast stock price on November 18, 2002. AT&T shareowners received a 56% economic stake and a 66% voting interest in new Comcast.

In connection with the non-pro rata spin-off of AT&T Broadband, AT&T wrote up the net assets of AT&T Broadband to fair value. This resulted in a noncash gain of $1.3 billion, which represented the difference between the fair value of the AT&T Broadband business at the date of the spin-off and AT&T's book value in AT&T Broadband, net of certain charges triggered by the spin-off and their related income tax effect. These charges included compensation expense due to the accelerated vesting of stock options as well as the enhancement of certain incentive plans. The gain was recorded in 2002 as a "Gain on disposition of discontinued operations."

On August 10, 2001, AT&T completed the split-off of Liberty Media Corporation as an independent, publicly-traded company. Since, at the time of disposition, AT&T did not exit the line of business that Liberty Media Group (LMG) operated in, LMG was not accounted for as a discontinued operation. AT&T redeemed each outstanding share of Class A and Class B Liberty Media Group (LMG) tracking stock for one share of Liberty Media Corporation's Series A and Series B common stock, respectively. The IRS ruled that the split-off of Liberty Media Corporation qualified as a tax-free transaction for AT&T, Liberty Media and their shareowners. For accounting purposes, the deemed effective split-off date was July 31, 2001. The operating results from August 1, 2001, through August 10, 2001, were deemed immaterial to our consolidated results.

The LMG tracking stock, which had reflected 100% of the performance of LMG, was issued in 1999 in connection with AT&T's acquisition of Tele-Communications, Inc. (TCI). AT&T did not have a controlling financial interest in LMG for financial accounting purposes; therefore, AT&T's ownership in LMG was reflected as an investment accounted for under the equity method in AT&T's consolidated financial statements. The amounts attributable to LMG are reflected in the accompanying Consolidated Statements of Operations as "Equity (losses) earnings from Liberty Media Group" prior to its split-off from AT&T.

On July 9, 2001, AT&T completed the split-off of AT&T Wireless as a separate, independently-traded company. All AT&T Wireless Group tracking stock was converted into AT&T Wireless common stock on a one-for-one basis and 1,136 million shares of AT&T Wireless common stock held by AT&T were distributed to AT&T common shareowners on a basis of 0.3218 of a share (1.609 shares adjusted for the 1-for-5 reverse stock split) of AT&T Wireless for each AT&T share outstanding. AT&T common shareowners received whole shares of AT&T Wireless and cash payments for fractional shares. The IRS ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. For accounting purposes, the deemed effective split-off date was June 30, 2001. The impact of operating results from July 1, 2001 through July 9, 2001, were deemed immaterial to our consolidated results. The split-off of AT&T Wireless resulted in a noncash tax-free gain of $13.5 billion, which represented the difference between the fair value of the AT&T Wireless tracking stock at the date of the split-off and AT&T's book value in AT&T Wireless. This gain was recorded in 2001 as a "Gain on disposition of discontinued operations." At the time of split-off, AT&T retained approximately $3 billion, or 7.3%, of AT&T Wireless common stock.

AT&T issued the AT&T Wireless tracking stock in April 2000, to track the financial performance of AT&T Wireless Group. The shares initially issued tracked approximately 16% of the performance of AT&T Wireless Group.

The earnings attributable to AT&T Wireless Group are excluded from the earnings available to AT&T Common Stock Group and are included in "Net (loss) from discontinued operations." Similarly, the earnings and losses related to LMG are excluded from the earnings available to AT&T Common Stock Group. The remaining results of operations of AT&T, including the financial performance of AT&T Wireless Group not represented by the tracking stock, is referred to as the AT&T Common Stock Group and is represented by AT&T common stock.

Forward-Looking Statements

This document may contain forward-looking statements with respect to AT&T's financial condition, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies or synergies, budgets, capital and other expenditures, network build-out and upgrade, competitive positions, availability of capital, growth opportunities for existing products, benefits from new technologies, availability and deployment of new technologies, plans and objectives of management, and other matters.

These forward-looking statements, including, without limitation, those relating to the future business prospects, revenue, working capital, liquidity, capital needs, network build-out, interest costs and income, are necessary estimates reflecting the best judgment of senior management that rely on a number of assumptions concerning future events, many of which are outside AT&T's control, and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements including, without limitation:

- the impact of existing and new competitors in the markets in which AT&T competes, including competitors that may offer less expensive products and services, desirable or innovative products, technological substitutes, or have extensive resources or better financing,
- the impact of oversupply of capacity resulting from excessive deployment of network capacity,
- the ongoing global and domestic trend toward consolidation in the telecommunications industry, which may have the effect of making the competitors of these entities larger and better financed and afford these competitors with extensive resources and greater geographic reach, allowing them to compete more effectively,
- the effects of vigorous competition in the markets in which the Company operates, which may decrease prices charged, increase churn and change customer mix and profitability,
- the ability to establish a significant market presence in new geographic and service markets,
- the availability and cost of capital,

- the impact of any unusual items resulting from ongoing evaluations of the business strategies of the Company,
- the requirements imposed on the Company or latitude allowed to competitors by the Federal Communications Commission (FCC) or state regulatory commissions under the Telecommunications Act of 1996 or other applicable laws and regulations,
- the risks associated with technological requirements, wireless, Internet or other technology substitution and changes and other technological developments,
- the results of litigation filed or to be filed against the Company, and
- the possibility of one or more of the markets in which the Company competes being impacted by changes in political, economic or other factors, such as monetary policy, legal and regulatory changes or other external factors over which the Company has no control.

The words "estimate," "project," "intend," "expect," "believe," "plan" and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this document is filed. Moreover, in the future, AT&T, through its senior management, may make forward-looking statements about the matters described in this document or other matters concerning AT&T.

The discussion and analysis that follows provides information management believes is relevant to an assessment and understanding of AT&T's consolidated results of operations for the years ended December 31, 2002, 2001, and 2000, and financial condition as of December 31, 2002 and 2001.

Critical Accounting Estimates and Judgments

AT&T's financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Management continually evaluates its estimates and judgments including those related to useful lives of plant and equipment, pension and other postretirement benefits, income taxes and legal contingencies. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that of our significant accounting policies, the following may involve a higher degree of judgment (see note 2 to the consolidated financial statements for a complete discussion of AT&T's significant accounting policies):

Estimated useful lives of plant and equipment — We estimate the useful lives of plant and equipment in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The majority of our telecommunications plant and equipment is depreciated using the group method, which develops a depreciation rate (annually) based on the average useful life of a specific group of assets, rather than the individual asset as would be utilized under the unit method. Such estimated life of the group changes as the composition of the group of assets changes and their related lives. The estimated life of the group is based on historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods. Likewise, if the anticipated technological or other changes occur more slowly than anticipated, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation and amortization expense in future periods. A one-year decrease or increase in the useful life of these assets would increase or decrease depreciation and amortization expense by approximately $0.5 billion. We review these types of assets for impairment annually, or when events or circumstances indicate that the carrying amount may be not be recoverable over the remaining lives of the assets. In assessing impairments, we follow the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," utilizing cash flows which take into account management's estimates of future operations.

Pension and postretirement benefits — The amounts recognized in the financial statements related to pension and postretirement benefits are determined on an actuarial basis utilizing several different assumptions. A significant assumption used in determining our net pension credit (income) and postretirement benefit expense is the expected long-term rate of return on plan assets. In 2002, we used an expected long-term rate of return of 9.0%. For 2003, we will lower this expected rate of return to 8.5%. In determining this revised rate, we considered the current and projected investment portfolio mix and estimated long-term investment returns for each asset class. The projected portfolio mix of the plan assets is developed in consideration of the expected duration of related plan obligations and as such is more heavily weighted toward equity investments, including public and private equity positions. Plan assets also include fixed income and real estate investments. The actual return on pension plan assets over the last 10 and 15 years has been 10.4% and 10.9%, respectively, although the return for the last two years has been negative. The expected return on plan assets is determined by applying the expected long-term rate of return to the market-related value of plan assets. The market-related value is a calculated value that amortizes the difference between actual and expected returns evenly over a five-year period. The combined market-related value of plan assets of the pension and postretirement benefit plans as of December 31, 2002, was approximately $19.5 billion; about $2 billion higher than the related fair value of plan assets. The expected return on assets of the pension and postretirement benefit plans included in 2002 operating income was income of $1.7 billion. The reduction in the expected long-term rate of return to 8.5% will reduce the expected return credit by approximately $0.1 billion in 2003.

Another significant estimate is the discount rate used in the annual actuarial valuation of pension and postretirement benefit plan obligations. In determining the appropriate discount rate at year-end, we considered the current yields on high quality corporate fixed-income investments with maturities corresponding to the expected duration of the benefit obligations. As of December 31, 2002, we reduced the discount rate by 75 basis points to 6.5%. Changes in the discount rate do not have a material impact on our results of operations.

Income taxes — Deferred income taxes are provided for the effect of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. We measure deferred tax assets and liabilities using enacted tax rates that, if changed, would result in either an increase or decrease in the provision for income taxes in the period of change. A one-percentage point increase in the enacted federal income tax rate as of December 31, 2002, would decrease net income by approximately $0.1 billion. A valuation allowance is recorded when it is more likely than not that a deferred tax asset will not be realized. In assessing the likelihood of realization, management considers estimates of future taxable income, the character of income needed to realize future tax benefits, and all available evidence.

Legal contingencies — We are currently involved in certain legal proceedings and have accrued amounts that represent our estimate of the probable outcome of these matters. Such estimates of outcome are derived from consultation with outside counsel, as well as an assessment of litigation and settlement strategies. In addition, we may be responsible for a portion of certain legal proceedings associated with former affiliates pursuant to separation and distribution agreements. Such agreements provide AT&T to share in the cost of certain litigation (relating to matters while affiliated with AT&T) if a judgment or settlement exceeds certain thresholds. With the exception of the Sparks matter (see Discontinued Operations discussion), as of December 31, 2002, we are not aware of, and have not been advised of, any matters in which it is probable that costs would be incurred in excess of the thresholds above which we would be required to share in the costs. However, in the event these former subsidiaries were unable to meet their obligations with respect to these liabilities due to financial difficulties, AT&T could be held responsible for all or a portion of these costs, irrespective of the sharing agreements. Depending on how these matters are resolved, these costs could be material.

Consolidated Results of Operations

The comparison of 2002 results with 2001 results was impacted by the April 1, 2002, unwind of Concert, our joint venture with British Telecommunications plc (BT). The venture's assets and customer accounts were distributed back to the parent companies. Under the partnership termination agreement, each of the partners generally reclaimed the customer contracts and assets that were initially contributed to the joint venture, including international transport facilities and gateway assets. In addition, AT&T assumed certain other assets that BT originally contributed to the joint venture. As a result, 2002 results include revenue and expenses associated with these customers and businesses for the period April 1, 2002 through December 31, 2002, while 2001 and the first quarter of 2002 includes our proportionate share of Concert's earnings and related charges in "Net losses related to other equity investments." In addition, the assets reclaimed are consolidated in each line item of the Consolidated Balance Sheet at December 31, 2002, versus an equity investment in Concert at December 31, 2001, included in "Other assets."

For the period August 28, 2000, through December 31, 2002, AT&T's interest in AT&T Latin America was fully consolidated in AT&T's results. In December 2002, AT&T signed a non-binding term-sheet for the sale of its 69% economic interest (95% voting interest) in AT&T Latin America and began accounting for AT&T Latin America as an asset held for sale (the operations of AT&T Latin America did not qualify for treatment as a discontinued operation). As a result of this action, as well as our belief that no changes to the plan will be made and that a sale will be completed within one year, we recorded an impairment charge of $1.0 billion to write down AT&T Latin America's assets and liabilities to fair value, and reclassified these assets and liabilities to "Other current assets" and "Other current liabilities" at December 31, 2002.

The consolidated financial statements of AT&T reflect AT&T Broadband and AT&T Wireless as discontinued operations. AT&T Broadband was spun-off on November 18, 2002, and AT&T Wireless was split-off on July 9, 2001. Accordingly, the revenue, costs and expenses and cash flows of AT&T Broadband and AT&T Wireless have been excluded from the respective captions in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and have been reported through their respective dates of separation as "Net (loss) from discontinued operations" and as "Net cash (used in) provided by discontinued operations." In addition, the assets and liabilities of AT&T Broadband have been excluded from the respective captions in the Consolidated Balance Sheet at December 31, 2001, and have been reported as "Current assets of discontinued operations," "Non-current assets of discontinued operations," "Current liabilities of discontinued operations," "Non-current liabilities of discontinued operations," "Minority Interest of Discontinued Operations," and "Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T of Discontinued Operations."

A 1-for-5 reverse stock split of AT&T common stock was effected on November 18, 2002. Shares (except shares authorized), per share amounts and stock prices were restated to reflect the stock split on a retroactive basis. In addition, our stock prices were restated to reflect the AT&T Broadband disposition.

Effective July 1, 2000, the FCC eliminated Primary Interexchange Carrier Charges (PICC or per-line charges) that AT&T pays for residential and single-line business long distance customers. The elimination of these per-line charges resulted in lower access expense as well as lower revenue, since AT&T has historically billed its customers for these charges.

Revenue	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
AT&T Business Services	$26,558	$27,705	$28,559
AT&T Consumer Services	11,527	14,843	18,643
Corporate and Other	(258)	(351)	(352)
Total Revenue	$37,827	$42,197	$46,850

Total revenue decreased 10.4%, or $4.4 billion, in 2002 compared with 2001, and decreased 9.9%, or $4.7 billion, in 2001 compared with 2000. The decrease in both years was largely driven by continued declines in long distance voice revenue of approximately $5.2 billion in 2002 and $5.5 billion in 2001. In addition, 2001 revenue declined by $0.5 billion due to the elimination of PICC. The long distance voice decline reflects the impact of pricing pressures and substitution, including a shift from higher-priced products such as business retail to lower-priced products such as business wholesale and prepaid cards. Partially offsetting the declines was growth in data/Internet Protocol(IP)/managed services within AT&T Business Services and local voice services within both AT&T Consumer Services and AT&T Business Services of approximately $0.8 billion in 2002, and $1.4 billion in 2001. The 2002 variances include a positive impact attributable to the reintegration of customers and assets from the unwind of Concert.

In 2003, we expect our long distance voice revenue to continue to decline due to ongoing competition and product substitution. This decline in revenue is expected to be partially offset by growth in our local voice services and data/IP/managed services.

Revenue by segment is discussed in greater detail in the segment results section.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Access and other connection	$10,790	$12,085	$13,139
Costs of services and products	8,363	8,621	8,235
Selling, general and administrative	7,988	8,064	7,387
Depreciation and amortization	4,888	4,559	4,538
Net restructuring and other charges	1,437	1,036	758
Total operating expenses	$33,466	$34,365	$34,057
Operating income	$ 4,361	$ 7,832	$12,793
Operating margin	11.5%	18.6%	27.3%

Included within ***access and other connection expenses*** are costs we pay to connect calls using the facilities of other service providers, as well as the Universal Service Fund contributions and per-line charges mandated by the FCC. Costs paid to telephone companies outside of the United States to connect international calls are also included within access and other connection expenses.

Access and other connection expenses decreased 10.7%, or $1.3 billion, in 2002 compared with 2001. Approximately $0.5 billion of this decrease was due to lower Universal Service Fund contributions and lower per-line charges, which were primarily driven by the decline in long distance voice revenue. In addition, domestic access charges decreased by $0.5 billion primarily due to product mix and FCC-mandated access-rate reductions. International connection charges decreased by approximately $0.4 billion driven primarily by lower rates and the reintegration of customers and assets from the unwind of Concert. These reductions were partially offset by an increase in local connectivity costs. Since most of the Universal Service Fund contributions, per-minute access-rate reductions and per-line charges are passed through to the customer, these reductions generally result in a corresponding reduction in revenue.

In 2003, we expect access rates to be flat or slightly lower than 2002 as most of the FCC-mandated rate reductions have been implemented. We also expect our local connectivity costs to continue to increase as we continue to grow our local voice business.

Access and other connection expenses decreased 8.0%, or $1.1 billion, in 2001 compared with 2000. Approximately $1.6 billion of the decrease was due to mandated reductions in per-minute access rates, lower per-line charges and lower international connection rates. In July 2000, per-line charges that AT&T paid for residential and single-line business customers were eliminated by the FCC. These reductions were partially offset by a $0.6 billion increase due to overall volume growth primarily related to local and international services and higher Universal Service Fund contributions.

Costs of services and products include the costs of operating and maintaining our networks, costs to support our outsourcing contracts, the provision for uncollectible receivables and other service-related costs, including the cost of equipment sold.

Costs of services and products decreased $0.3 billion, or 3.0%, in 2002 compared with 2001. Approximately $0.5 billion of the decrease was due to the overall impact of lower revenue and related costs at AT&T Consumer Services and AT&T Business Services. In addition, costs decreased approximately $0.2 billion due to losses on certain long-term contracts recorded in 2001 by AT&T Business Services. These decreases were partially offset by an increase of $0.1 billion in AT&T Business Services' provision for uncollectible receivables primarily attributable to the weak economy. Cost of services and products also increased as a result of the reintegration of customers and assets from the unwind of Concert.

In 2001, these costs increased $0.4 billion, or 4.7%, compared with 2000. The increase was driven by approximately $0.6 billion of higher costs associated with our growth businesses, primarily at AT&T Business Services, including the cost of equipment sold. In addition, costs increased approximately $0.3 billion due to estimated losses on certain long-term contracts at AT&T Business Services and a lower pension credit (income) primarily due to the lower expected long-term rate of return on plan assets and the effects of lower actual plan assets. These increases were partially offset by approximately $0.4 billion of lower costs associated with decreased revenue, primarily lower volumes at AT&T Business Services, including our international operations, and lower payphone compensation costs.

Selling, general and administrative (SG&A) expenses decreased $76 million, or 0.9%, in 2002 compared with 2001. This decrease was driven by a reduction in the number of residential customers as well as cost control efforts of $0.7 billion, and lower transaction costs of $0.2 billion associated with the AT&T restructuring. Partially offsetting these decreases was $0.3 billion of lower pension credits (income) primarily due to the lower expected long-term rate of return on plan assets and the effects of lower actual plan assets, and $0.3 billion associated with increased marketing and sales expenses for new local consumer service offerings and increased investment for business sales and customer care development. SG&A expenses also increased as a result of the reintegration of customers and assets from the unwind of Concert.

We expect SG&A expenses, and to a lesser extent costs of services and products, will be unfavorably impacted in the future due to lower pension credits (income) and higher post-retirement expenses resulting from a lower expected long-term rate of return on plan assets in 2003 of 8.5% compared with the 9% rate used in 2002 and the effects of lower actual plan assets. We also expect SG&A expenses to be impacted by higher compensation costs associated with stock options reflecting the decision to expense stock option grants, commencing with options granted in 2003.

SG&A expenses increased $0.7 billion, or 9.2%, in 2001 compared with 2000. Increased expenses in support of growth businesses, primarily data/IP/managed services, and local voice services, drove approximately $0.5 billion of the increase. These expenses included infrastructure development costs associated with increased sales headcount, advertising, and other general and administrative expenses. A lower pension credit (income) and higher postretirement expense resulting from decreased return on plan assets, combined with higher compensation accruals, contributed approximately $0.3 billion to the increase. Also included in the increased SG&A expenses were transaction costs of approximately $0.2 billion associated with AT&T's restructuring announced in October 2000. Partially offsetting these increases was the impact of cost control efforts as well as decreased customer care and billing expenses of approximately $0.7 billion, primarily from AT&T Consumer Services.

Depreciation and amortization expenses increased $0.3 billion, or 7.2%, in 2002 compared with 2001. The increase was primarily due to a larger asset base resulting from continued infrastructure investment supporting our growth business. The increase was partially offset by the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" as of January 1, 2002, which eliminated the amortization of goodwill. In 2001, we recorded $0.2 billion of amortization expense on goodwill.

In 2003, the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities only if such liability is unavoidable and legally enforceable, will have a favorable impact on depreciation expense. (See "New Accounting Pronouncements" for a further discussion of SFAS No. 143.) However, we continue to invest in our asset base, which will increase depreciation expense in 2003.

Depreciation and amortization expenses increased $21 million in 2001 compared with 2000. The increase was primarily due to a larger asset base resulting from continued infrastructure investment. Certain infrastructure assets placed in service in 2001 extended the average life of the overall assets, partially mitigating the impact of the larger asset base.

Total capital expenditures were $3.9 billion, $5.6 billion and $6.8 billion for 2002, 2001 and 2000, respectively. The decrease in spending was primarily due to cost containment efforts. We continue to focus the majority of our capital spending on our growth businesses of data/IP/managed services.

In 2002, ***net restructuring and other charges*** were $1,437 million. The net charge included $1,203 million related to AT&T Business Services, $211 million related to AT&T Consumer Services and $23 million related to the Corporate and Other group.

Included in the $1,437 million was a $1,029 million charge for the impairment of the net assets of our consolidated subsidiary, AT&T Latin America. In December 2002, the AT&T Board of Directors approved a plan for AT&T to sell its approximate 95% voting stake in AT&T Latin America in its current condition. On December 31, 2002, AT&T signed a non-binding term sheet for the sale of our shares within one year for a nominal amount. As a result of this plan, we classified AT&T Latin America as an asset "held for sale" at fair market value, in accordance with SFAS No. 144. Consequently, there are approximately $160 million of assets (principally cash and accounts receivable) included in Other Current Assets and approximately $160 million of liabilities (principally secured short-term debt) included in Other Current Liabilities. The $1,029 million charge to write the assets and liabilities down to their fair values was reported within our AT&T Business Services segment.

Also included in net restructuring and other charges was a $204 million impairment charge related to certain Digital Subscriber Line (DSL) assets (including internal-use software, licenses, and property, plant &

equipment) that will not be utilized by AT&T as result of changes to our "DSL build" strategy. Instead of building DSL capabilities in all geographic areas initially targeted, we have signed an agreement with Covad Communications to offer DSL services over their network. As a result, the assets in these areas were impaired. This charge was reported within our AT&T Consumer Services segment.

In 2002, AT&T recorded net business restructuring charges of $204 million. These activities consisted of new exit plans totaling $377 million and reversals of $173 million. The new plans primarily consisted of $334 million for employee separation costs primarily in AT&T Business Services, and $39 million of facility closing reserves. Slightly more than 4,800 employees will be separated in conjunction with these exit plans, approximately one-half of which are management employees and one-half are non-management employees. The majority of these employee separations will be involuntary and are largely the result of improved processes and automation in provisioning and maintenance of services for business customers. Due to the timing of these separations, these exit plans did not yield cash savings in 2002, nor did we realize a benefit to operating income in 2002. Future cash and expense savings is dependent upon the timing of actual separations and associated payments. In the first full year following the completion of these exit plans, we expect to realize approximately $300 million of cash savings and benefit to operating income. Approximately 14% of the employees affected by these exit plans had left their positions by December 31, 2002, and we expect those remaining to leave their positions by the end of 2003. Termination benefits of approximately $328 million were paid throughout 2002 for the current and prior year's separation plans.

The $173 million reversal primarily consisted of $124 million of employee separation costs and $26 million related to prior plan facility closings no longer deemed to be necessary. The reversals were primarily due to management's determination that the restructuring plan established in the fourth quarter of 2001 for certain areas of AT&T Business Services, including network services, needed to be modified given current industry conditions, as well as the redeployment of certain employees to different functions within the Company.

During 2001, net restructuring and other charges were $1,036 million which were primarily comprised of $862 million for employee separations, of which $388 million related to benefits to be paid from pension assets as well as pension and postretirement curtailment losses, and $166 million for facility closings. The restructuring and exit plans support our cost reduction efforts through headcount reductions across all segments of the business, primarily network support and customer care functions in AT&T Business Services. These charges were slightly offset by the reversal of $33 million related to business restructuring plans announced in the fourth quarter 1999 and the first quarter 2000 (of which $15 million related to employee separations and $18 million related to contract terminations). The net charge consisted of $570 million related to AT&T Business Services, $31 million related to AT&T Consumer Services and $435 million related to the Corporate and Other group.

The charge covered separation costs for approximately 10,000 employees, approximately one-half of whom were management and one-half were non-management employees. More than 9,000 employee separations related to involuntary terminations and the remaining 1,000 were voluntary.

During 2000, we recorded $758 million of net restructuring and other charges which included $586 million for employee separations associated with AT&T's initiative to reduce costs, of which $144 million primarily related to pension and postretirement curtailment losses. The charge also included $91 million related to the government-mandated disposition of AT&T Communications (U.K.) Ltd., which would have competed directly with Concert, and $62 million of network lease and other contract termination costs associated with penalties incurred as part of notifying vendors of the termination of these contracts during the year. The net charge consisted of $395 million related to AT&T Business Services, $97 million related to AT&T Consumer Services and $266 million related to the Corporate and Other group.

These plans covered separation costs for approximately 6,100 employees, mainly in AT&T Business Services, including network operations, primarily for the consolidation of customer-care and call centers. Approximately one-half of whom were management employees and one-half were non-management employees. Approximately 5,500 of the employee separations related to involuntary terminations and approximately 600 related to voluntary terminations.

AT&T's ***operating income*** in 2002 decreased $3.5 billion, or 44.3%, compared with 2001 and decreased $5.0 billion, or 38.8%, in 2001 compared with 2000. AT&T's ***operating margin*** was 11.5% in 2002 compared with 18.6% in 2001 and 27.3% in 2000. The decline in 2002 was primarily due to the decline in revenue combined with increased net restructuring and other charges and increased depreciation and amortization expenses. Also contributing to the decline was a lower rate of decline in selling, general and administrative expenses and costs of services and products compared with the revenue rate of decline. The decline in operating margin in 2001 was primarily due to a decline in revenue combined with increased selling, general and administrative expenses, costs of services and products, net restructuring and other charges, and depreciation and amortization expenses. The operating margin declines in both years reflect pricing pressures and a shift from higher-margin retail long distance services to lower-margin wholesale long distance service and other lower-margin services such as lower-priced optional calling plans and prepaid cards.

We expect the operating margin to continue to decline in 2003 despite the expected benefit from lower net restructuring and other charges. The expected decline is primarily due to a continued decline in the long distance business reflecting the impact of accelerating growth in wholesale services as well as a shift to lower-margin services such as lower-priced optional calling plans and prepaid cards.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Other (expense) income	$(77)	$1,327	$1,190

Other (expense) income in 2002 was expense of $77 million compared with income of $1.3 billion in 2001. The unfavorable variance of $1.4 billion was primarily due to $1.2 billion of higher net gains on sales of businesses and investments in 2001, including gains on the sale of AT&T's retained interest in AT&T Wireless and Japan Telecom. The unfavorable variance was also due to impairments of $0.2 billion recorded in 2002 related to certain leases of aircraft which are accounted for as leveraged leases, $0.2 billion of lower income related to mark-to-market adjustments on derivative instruments and lower investment-related income of $0.2 billion. Favorably impacting other (expense) income were lower investment impairment charges of $0.4 billion in 2002, primarily driven by lower impairment charges for Time Warner Telecom.

At December 31, 2002, we had investments in leveraged leases of aircraft of $601 million [$(185) million net of deferred taxes], which we lease to airlines as well as aircraft related companies. Several airline carriers who have leases have recently experienced financial difficulties. While these airlines are current on their lease rental payments, we could record additional impairment charges in 2003 if any of these carriers declare bankruptcy or renegotiate their lease terms with us. In addition, in the event of bankruptcy or a renegotiation of lease terms, if any portion of the non-recourse debt is canceled, such amounts would result in taxable income to AT&T and accordingly a cash tax expense.

Other (expense) income in 2001 was income of $1.3 billion compared with income of $1.2 billion in 2000. The favorable variance of $0.1 billion was driven primarily by higher net gains on the sales of businesses and investments of $0.5 billion which reflect the gains on the sales of AT&T's retained interest in AT&T Wireless and Japan Telecom in 2001, $0.2 billion related to the settlement, in 2001, of disputes relating to the buyer's obligations resulting from the sale of AT&T Universal Card Services, and higher income related to mark-to-market adjustments on derivative instruments of $0.2 billion. Partially offsetting these increases was investment impairment charges of $0.5 billion, primarily consisting of the impairment of Time Warner Telecom, and lower interest income of $0.2 billion.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Interest (expense)	$(1,448)	$(1,493)	$(1,503)

Interest expense decreased $45 million, or 3.0%, in 2002 compared with 2001, and decreased $10 million, or 0.6%, in 2001 compared with 2000. The decrease in both periods was primarily due to lower average debt balances, reflecting our debt reduction efforts, partially offset by higher average interest rates. Average interest rates were higher in both periods due to the mix of short-term and long-term debt. The 2002 average rate was adversely affected by the $10 billion bond offering in November 2001. We expect interest expense to be lower in future periods as a result of our debt reduction efforts.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
(Provision) for income taxes	$(1,587)	$(2,890)	$(4,487)
Effective tax rate	56.0%	37.7%	35.9%

The ***effective tax rate*** is the ***provision for income taxes*** as a percent of income from continuing operations before income taxes. The 2002 rate was adversely impacted by approximately 14.9 percentage points due to the $1.0 billion impairment charge recorded in 2002 relating to AT&T's interest in AT&T Latin America for which no tax benefit was recorded. Also negatively impacting the 2002 rate was the impact of AT&T Latin America's losses from operations for which no tax benefit was recorded because realization of a tax benefit was not likely to occur and the losses were not includable in AT&T's consolidated income tax return.

In 2001, the effective tax rate was positively impacted by tax benefits associated with the tax-free gain from the disposal of a portion of AT&T's retained interest in AT&T Wireless in a debt-for-equity exchange, partially offset by the consolidation of AT&T Latin America's pretax losses for which no tax benefit was provided.

In 2000, the effective tax rate was positively impacted by the tax benefits associated with certain legal entity restructurings and investments.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Minority interest income	$114	$131	$41

Minority interest income represents an adjustment to AT&T's income to reflect the less than 100% ownership of consolidated subsidiaries. Minority interest income decreased $17 million in 2002 compared with 2001 as a result of lower net losses of AT&T Latin America in 2002. In December 2002, AT&T fully utilized the minority interest balance related to AT&T Latin America; therefore, we will no longer record minority interest income related to AT&T Latin America.

Minority interest income increased $0.1 billion in 2001 compared with 2000 primarily due to AT&T Latin America, which we acquired on August 28, 2000; therefore, 2001 includes a full year of results, compared with a partial year in 2000.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Equity (losses) earnings from Liberty Media Group	$—	$(2,711)	$1,488

Equity (losses) earnings from LMG, which are recorded net of income taxes, were a loss of $2.7 billion in 2001, compared with earnings of $1.5 billion in 2000. The decline of $4.2 billion was largely driven by gains on dispositions recorded in 2000, including gains associated with the mergers of various companies that LMG had investments in, as well as higher stock compensation expense in 2001 compared with 2000. Partially offsetting these declines were lower impairment charges recorded on LMG's investments to reflect other than temporary declines in value. Equity losses for 2001 reflect results through July 31, 2001, the deemed effective date of the split-off.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Net (losses) earnings related to other equity investments	$(400)	$(4,836)	$10

Net (losses) related to other equity investments, which are recorded net of income taxes, declined $4.4 billion in 2002 compared with 2001 due to lower net losses of $2.1 billion for Concert, $1.5 billion for AT&T Canada and $0.8 billion for Net2Phone, primarily resulting from impairment charges recorded in 2001.

Net (losses) related to other equity investments, net of income taxes, were $4.8 billion in 2001 compared with income of $10 million in 2000. The unfavorable variance of $4.8 billion was primarily due to greater losses of $2.2 billion for Concert, $1.8 billion for AT&T Canada and $0.8 billion for Net2Phone primarily due to impairment charges recorded in 2001.

The after-tax amortization of excess basis associated with nonconsolidated investments, recorded as a reduction of income, totaled $36 million in 2001, and $37 million in 2000.

Effective January 1, 2002, in accordance with the provisions of SFAS No. 142, we no longer amortize excess basis related to nonconsolidated investments.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Net (loss) from discontinued operations, net of income taxes	$(14,513)	$(4,052)	$(4,863)
Gain on disposition of discontinued operations	1,324	13,503	—

Net (loss) from discontinued operations, net of income taxes, primarily represents the operating results of AT&T Broadband and AT&T Wireless, which AT&T disposed of and accounted for as discontinued operations. Accordingly, the revenue, costs and expenses of AT&T Broadband and AT&T Wireless have been excluded from the respective captions in the Consolidated Statements of Operations.

In 2002, the net (loss) from discontinued operations included a loss of $14.5 billion from the discontinued operations of AT&T Broadband, and an estimated loss on the litigation settlement associated with the business of Lucent Technologies Inc., which was spun-off from AT&T in 1996 and accounted for as a discontinued operation. Sparks, et al. v. AT&T and Lucent Technologies Inc. et al., was a class action lawsuit filed in 1996 in Illinois state court. On August 9, 2002, a settlement proposal was submitted to and accepted by the court. In accordance with the separation and distribution agreement between AT&T and Lucent Technologies Inc., AT&T recorded its proportionate share of the settlement and estimated legal costs, which totaled $33 million, net of tax. Depending upon the number of claims submitted and accepted, the actual cost of the settlement to AT&T may be less than stated amounts, but it is not possible to estimate the amount at this time.

In 2002, we realized a noncash ***gain on the disposition of AT&T Broadband*** of $1.3 billion, which represented the difference between the fair value of AT&T Broadband at the date of the spin-off and AT&T's book value, net of certain charges triggered by the spin-off of $159 million, and the related income tax effect of $61 million. These charges included compensation expense due to the accelerated vesting of stock options as well as the enhancement of certain incentive plans.

In 2001, the net (loss) from discontinued operations included a loss of $4.2 billion from the discontinued operations of AT&T Broadband, and income of $150 million from the discontinued operations of AT&T Wireless.

In 2001, we realized a tax-free noncash gain on the disposition of discontinued operations of $13.5 billion, representing the difference between the fair value of the AT&T Wireless tracking stock at the date of the split-off and AT&T's book value.

In 2000, the net (loss) from discontinued operations consisted of a loss of $5.4 billion from the discontinued operations of AT&T Broadband, and income of $536 million from the discontinued operations of AT&T Wireless.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Cumulative effect of accounting changes	$(856)	$904	$—

Effective January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, franchise costs were tested for impairment as of January 1, 2002, by comparing the fair value to the carrying value (at the market level). As a result of this test, an impairment loss (related to discontinued operations) of $0.9 billion, net of income taxes of $0.5 billion, was recorded in 2002.

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The cumulative effect of this accounting change, net of applicable income taxes, was comprised of $0.4 billion for AT&T Group (of which $0.2 billion related to discontinued operations) and $0.5 billion for LMG. The $0.4 billion recorded by AT&T Group was attributable primarily to fair value adjustments of equity derivative instruments embedded in indexed debt instruments and warrants held in public and private companies. The $0.5 billion recorded by LMG represents the impact of separately recording the embedded call option obligations associated with LMG's senior exchangeable debentures.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Dividend requirements of preferred stock	$—	$(652)	$—
Premium on exchange of AT&T Wireless tracking stock	—	(80)	—

Dividend requirements of preferred stock were $0.7 billion in 2001. The preferred stock dividend represented interest in connection with convertible preferred stock issued to NTT DoCoMo in January of 2001 as well as accretion of the beneficial conversion feature associated with this preferred stock. The beneficial conversion feature was computed upon the issuance of the NTT DoCoMo preferred stock and represented the excess of the fair value of the preferred shares issued over the proceeds received. This beneficial feature was being accreted over the time period DoCoMo was required to hold the shares. On July 9, 2001, in conjunction with the split-off of AT&T Wireless Group, these preferred shares were converted into AT&T Wireless common stock. As a result, the beneficial conversion feature was fully accreted.

In May 2001, AT&T completed an exchange offer of AT&T common stock for AT&T Wireless tracking stock. In 2001, this exchange resulted in a premium of $80 million, which was a reduction of net income available to common shareowners. The premium represented the excess of the fair value of the AT&T Wireless tracking stock issued over the fair value of the AT&T common stock exchanged and was calculated based on the closing share prices of AT&T common stock and AT&T Wireless tracking stock on May 25, 2001.

Segment Results

AT&T's results are segmented according to the customers we service: AT&T Business Services and AT&T Consumer Services. The balance of AT&T's continuing operations (excluding LMG) is included in a "Corporate and Other" group. This group primarily reflects corporate staff functions and the elimination of transactions between segments. The discussion of segment results includes revenue, earnings before interest and taxes (EBIT), capital additions and total assets.

EBIT is the primary measure used by AT&T's chief operating decision makers to measure AT&T's operating results and to measure segment profitability and performance. AT&T calculates EBIT as operating income plus other (expense) income, net, pretax minority interest income and pretax net (losses) earnings related to other equity investments. Interest and income taxes are not factored into the segment profitability measure used by the chief operating decision makers; therefore, trends for these items are discussed on a consolidated basis. Management believes EBIT is meaningful to investors because it provides an analysis of operating results using the same measure used by AT&T's chief operating decision makers. EBIT for AT&T was $3.9 billion, $1.5 billion and $14.0 billion for the years ended December 31, 2002, 2001 and 2000, respectively. We provide EBIT, a measure not calculated in accordance with generally accepted accounting principles (GAAP), for AT&T in order to provide investors a means to evaluate the financial results of each segment in relation to total AT&T. The table below provides a reconciliation of EBIT to operating income. Our calculations of EBIT may or may not be consistent with the calculation of this measure by other public companies. EBIT should not be viewed by investors as an alternative to a GAAP measure of performance, such as operating income.

Reconciliation of EBIT to Operating Income	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
EBIT	$3,886	$1,507	$13,973
Deduct:			
Other (expense) income	(77)	1,327	1,190
Minority interest income	114	131	41
Pretax net (losses) related to other equity investments	(512)	(7,783)	(51)
Operating income	$4,361	$7,832	$12,793

Total assets for each segment generally include all assets, except intercompany receivables. Prepaid pension assets and corporate-owned or leased real estate are generally held at the corporate level, and therefore are included in the Corporate and Other group. The total assets of discontinued operations and the related (loss) as well as the gain on disposition are not reflected in the Corporate and Other group. Capital additions for each segment include capital expenditures for property, plant and equipment, additions to nonconsolidated investments and additions to internal-use software.

Our existing segments reflect certain managerial changes that were implemented during 2002. The changes primarily include the following: revenue previously recorded by the AT&T Business Services segment as "Internal revenue" for services provided to certain other AT&T units and then eliminated within the Corporate and Other group is now recorded as a contra-expense by AT&T Business Services; the results of certain units previously included in the Corporate and Other group were transferred to the AT&T Business Services segment; the financial impacts of SFAS No. 133 that were previously recorded in the Corporate and Other group were transferred to the appropriate segments. In addition, AT&T Consumer Services and total AT&T revenue was restated in accordance with Emerging Issues Task Force (EITF) issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer," which requires cash incentives given to customers previously recorded as advertising and promotion expense now to be recorded as a reduction of revenue when recognized in the income statement, unless an identifiable benefit is received in exchange. All prior periods have been restated to reflect these changes.

Reflecting the dynamics of our business, we continuously review our management model and structure, which may result in additional adjustments to our operating segments in the future.

AT&T Business Services

AT&T Business Services offers a variety of global communications services to small and medium-sized businesses, large domestic and multinational businesses and government agencies. Their services include long distance, international, toll-free and local voice; data and IP services; managed services; and wholesale transport services (sales of services to service resellers). Data and IP services are broad categories of services in which data (i.e. e-mail, video or computer files) is transported from one location to another. In packet services, data is divided into efficiently sized components and transported between packet switches until it reaches its final destination, where it is reassembled. Packet services includes IP, frame relay and Asynchronous Transfer Mode or "ATM." Managed services delivers end-to-end enterprise networking solutions by managing networks, servers and applications.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
External revenue			
Services revenue	$25,856	$26,947	$27,900
Equipment and product sales	379	317	236
Total external revenue	26,235	27,264	28,136
Internal revenue	323	441	423
Total revenue	$26,558	$27,705	$28,559
EBIT	$ 1,638	$(2,305)	$ 5,917
Capital additions	3,716	5,451	6,841

	At December 31,	
	2002	2001
	(Dollars in millions)	
Total assets	$36,365	$40,316

Revenue

AT&T Business Services revenue decreased $1.1 billion, or 4.1%, in 2002 compared with 2001, and decreased $0.9 billion, or 3.0% in 2001 compared with 2000. The declines were primarily driven by a decline in long distance voice revenue of $1.7 billion in 2002 and $2.0 billion in 2001. Partially offsetting the decline was growth in data/IP/managed services, including equipment sales, and local voice services of $0.7 billion in 2002 and $1.3 billion in 2001.

In 2003, we expect long distance voice revenue will continue to decline, reflecting continued competitive pressure as well as an accelerating shift in the retail/wholesale mix. We expect the declines in long distance voice revenue will continue to be partially offset by growth in local and data/IP/managed services.

Long distance voice revenue declined approximately 12% in 2002 compared with 2001, and approximately 13% in 2001 compared with 2000, reflecting the continued impact of pricing pressures and a change in the wholesale-retail product mix. While long distance volumes grew at a low single-digit rate in 2002 and 2001, the increase was driven by growth in lower-priced wholesale volumes that was essentially offset by a decrease in higher-priced retail volumes. These factors are expected to continue to negatively impact revenue in 2003.

Data/IP/managed services, excluding equipment and product sales, increased approximately 5% in 2002 compared with 2001. Growth was driven by increased sales in packet services, which grew at a rate of approximately 17%, partially offset by a decline in private line services (a service in which the connection is dedicated to the customer), reflecting an industry trend of customers migrating from private line services to more cost-effective and technologically-advanced packet services. When we include equipment and product sales, data/IP/managed services increased approximately 6%.

Data/IP/managed services increased approximately 13% in 2001 compared with 2000, with or without the impact of equipment sales. The growth was led by packet services, which grew at a mid-20 percent rate.

Local voice services revenue grew approximately 13% in 2002 compared with 2001 and more than 20% in 2001 compared with 2000. This growth reflects our continued focus on increasing the utilization of our existing footprint. AT&T added approximately 676,000 access lines in 2002. Access lines at the end of 2002 and 2001 were approximately 3.6 million and 2.9 million, respectively.

AT&T Business Services internal revenue decreased $0.1 billion in 2002 compared with 2001 and was relatively flat in 2001 compared with 2000. The impact of internal revenue is included in the revenue by product discussions, above. The decrease in internal revenue in 2002 compared with 2001 was primarily due to the split-off of AT&T Wireless on July 9, 2001, as these sales are now reported as external revenue, partially offset by an increase in sales to AT&T Broadband. Sales to AT&T Broadband were recorded as internal revenue through the November 18, 2002, date of disposition. Subsequent to November 18, 2002, sales to AT&T Broadband, now Comcast, are recorded as external revenue.

EBIT

In 2002, EBIT increased $3.9 billion, or 171.1%, compared with 2001. The improvement was primarily due to a decrease in pretax net losses related to equity investments of $3.5 billion for Concert and $2.6 billion for AT&T Canada driven primarily by impairment charges and equity losses recorded in 2001, as well as $0.4 billion in lower restructuring charges recorded in 2002. This improvement was partially offset by a decrease in the long distance voice business resulting primarily from the impact of pricing pressures, a $1.0 billion impairment charge recorded in 2002 for AT&T Latin America, and a gain of approximately $0.5 billion recorded on the sale of our stake in Japan Telecom in 2001.

In 2001, EBIT decreased $8.2 billion, or 138.9%, compared with 2000. The decline was primarily due to higher losses of $3.5 billion related to Concert and $3.0 billion related to AT&T Canada, primarily due to impairment charges recorded in 2001. Also reflected in the decline was the impact of long distance voice pricing pressure, as well as a shift from higher-margin long distance services to lower-margin growth services.

Other Items

Capital additions decreased $1.7 billion in 2002 compared with 2001 and $1.4 billion in 2001 compared with 2000 as we continue to maintain a disciplined focus on capital spending. Although these declines reflect significantly lower capital expenditures for network assets that support all services provided by AT&T, we continue to focus the majority of our capital spending on our data, IP and local voice products.

Total assets decreased $4.0 billion, or 9.8%, at December 31, 2002, compared with December 31, 2001. The decrease reflects lower receivables primarily driven by the settlement of receivables from Concert in connection with the Concert unwind, improved cash collections and lower revenue. The decrease also reflects the write-off of the assets associated with the impairment of AT&T Latin America.

AT&T Consumer Services

AT&T Consumer Services provides a variety of communications services to residential customers including domestic and international long distance; transaction-based long distance, such as operator-assisted service and prepaid phone cards; local and local toll (intrastate calls outside the immediate local area); and dial-up Internet.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Revenue	$11,527	$14,843	$18,643
EBIT	2,647	4,875	6,893
Capital additions	127	140	148

	At December 31,	
	2002	2001
	(Dollars in millions)	
Total assets	$ 1,674	$ 2,141

Revenue

AT&T Consumer Services revenue declined $3.3 billion, or 22.3%, in 2002 compared with 2001, and $3.8 billion, or 20.4%, in 2001 compared with 2000. The decline in both periods was primarily due to long distance revenue, which fell $3.6 billion in both 2002 and 2001. These declines were largely driven by traditional long distance voice services, such as domestic and international dial services (long distance calls where the number "1" is dialed before the call), and domestic calling card services. The traditional long distance voice services revenue was negatively impacted by substitution and the impact of ongoing competition, which has led to a loss of market share. In addition, the continued migration of customers to optional calling plans and lower-priced products, such as prepaid cards, has also negatively impacted revenue. The revenue decline for 2001 also reflects a $0.5 billion impact due to the elimination of per-line charges in July 2000. Partially offsetting these declines was growth of $0.2 billion in both 2002 and 2001 related to local services. Calling volumes declined at a low-teen percentage rate in 2002, and a low double-digit percentage rate in 2001 as a result of competition and wireless and Internet substitution, partially offset by an increase in prepaid card usage.

In 2002, approximately 5% of AT&T Consumer Services total revenue and more than 50% of prepaid card revenue was related to a contract with Wal-Mart, Inc. If this contract is not renewed at the next renewal date, January 31, 2004 (subject to early termination if certain events occur), AT&T Consumer Services revenue would be adversely affected if we are unsuccessful in selling the cards through a different channel. We expect product substitution, competition (including the continued entry of the Regional Bell Operating Companies (RBOCs) into the long distance market) and customer migration to lower-priced calling plans and products to continue to negatively impact AT&T Consumer Services revenue in 2003.

EBIT

EBIT declined $2.2 billion, or 45.7%, in 2002 compared with 2001 and declined $2.0 billion, or 29.3%, in 2001 compared with 2000. The declines in both periods were primarily due to the revenue declines in the long distance business. Also impacting the EBIT decline in 2002 was an asset impairment charge of $0.2 billion recorded in 2002 related to the Digital Subscriber Line (DSL) assets that will no longer be utilized by AT&T as a result of the agreement with Covad Communications to offer DSL services over their network.

EBIT margin declined to 23.0% in 2002 from 32.8% in 2001 and 37.0% in 2000. The declining EBIT margins primarily reflect the impact of customers who substitute long distance calling with wireless and Internet service and remain AT&T Consumer Services customers as well as customers who migrate to optional calling plans and lower-priced products. These customers generate less revenue, while their billing, customer care and fixed costs remain. The 2002 margin was also negatively impacted by the DSL asset impairment charge. The 2001 margin decline was also impacted by a slight increase in marketing spending targeted at high-value customers, partially offset by the receipt of $0.2 billion in 2001 from the settlement of disputes relating to obligations resulting from the sale of AT&T Universal Card Services to Citigroup in 1998.

Other Items

In 2002, capital additions decreased $13 million, or 9.2%, compared with 2001. In 2001, capital additions decreased $8 million, or 5.2%, compared with 2000.

Total assets declined $0.5 billion to $1.7 billion at December 31, 2002, compared with $2.1 billion at December 31, 2001. This decline was primarily due to lower accounts receivable, reflecting lower revenue and slightly improved cash collections.

Corporate and Other

This group primarily reflects the results of corporate staff functions and the elimination of transactions between segments.

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Revenue	$ (258)	$ (351)	$ (352)
EBIT	(399)	(1,063)	1,163
Capital additions	63	150	1,594

	At December 31,	
	2002	2001
	(Dollars in millions)	
Total assets	$17,233	$19,872

Revenue

In 2002, Corporate and Other revenue was negative $258 million, compared with negative $351 million in 2001. The year-over-year change was primarily due to lower internal revenue with AT&T Wireless due to its split-off on July 9, 2001, partially offset by an increase in internal revenue with AT&T Broadband. In 2003, as a result of the AT&T Broadband spin-off, the elimination of internal revenue residing in Corporate and Other will decline significantly.

Revenue for Corporate and Other was essentially flat in 2001 compared with 2000, as lower internal revenue from AT&T Wireless due to its split-off in 2001 was offset by increased sales from AT&T Business Services to AT&T Broadband.

EBIT

In 2002, EBIT improved $0.7 billion to a deficit of $0.4 billion. The improvement was largely due to lower investment impairment charges of approximately $1.4 billion, primarily related to our investments in Net2Phone and Time Warner Telecom in 2001. Also contributing to the EBIT improvement was lower business restructuring charges as well as lower transaction costs associated with AT&T's restructuring announced in October of 2000, totaling $0.6 billion. These EBIT improvements were partially offset by lower net gains of $0.7 billion driven by a $0.5 billion tax-free gain recorded in 2001 associated with the disposal of a portion of AT&T's retained interest in AT&T Wireless. Also offsetting the EBIT improvements were a lower pension credit (income) of $0.3 billion primarily driven by a lower long-term expected rate of return and the effects of lower actual plan assets, a $0.2 billion impairment charge recorded in 2002 of certain leases of aircraft which are accounted for as leveraged leases, and a $0.2 billion variance due to mark-to-market adjustments on derivative instruments.

EBIT declined $2.2 billion to a deficit of $1.1 billion in 2001 compared with 2000. The decline was largely due to $1.5 billion of greater investment impairment charges in 2001, primarily for Net2Phone and Time Warner Telecom. Also contributing to the decline were higher restructuring and other charges and higher transaction costs associated with AT&T's restructuring announced in October 2000, totaling $0.4 billion; and a lower pension credit (income) and higher postretirement expense of $0.3 billion. These declines were partially offset by the $0.5 billion gain associated with the disposal of a portion of AT&T's retained interest in AT&T Wireless.

Other Items

Capital additions decreased $87 million in 2002 primarily due to a decline in the purchase of investments. Capital additions decreased $1.4 billion in 2001 primarily as a result of our investment in Net2Phone in 2000.

Total assets decreased $2.6 billion, to $17.2 billion in 2002. The decrease was primarily driven by a lower cash balance at December 31, 2002, and a decrease in investments primarily due to mark-to-market adjustments, partially offset by derivative-related activity.

Financial Condition

	At December 31,	
	2002	2001
	(Dollars in millions)	
Total assets	$55,272	$165,481
Total liabilities	42,960	105,778
Total shareowners' equity	12,312	51,680

Total assets decreased $110.2 billion, or 66.6%, to $55.3 billion at December 31, 2002, compared with December 31, 2001. The November 18, 2002, spin-off of AT&T Broadband accounted for $103.2 billion of the decrease. The decrease also reflects lower receivables of $3.1 billion primarily driven by improved cash collections, the settlement of receivables from Concert in connection with the Concert unwind, and lower revenue. In addition, assets decreased as a result of a $2.7 billion reduction in cash and the write-off of $1.1 billion of assets associated with the impairment of our interest in AT&T Latin America.

Total liabilities decreased $62.8 billion, or 59.4%, to $43.0 billion at December 31, 2002, from $105.8 billion at December 31, 2001. The November 18, 2002, spin-off of AT&T Broadband contributed $48.9 billion to the decrease. Also contributing to the decrease in liabilities was $11.6 billion in lower debt reflecting the pay-down of short-term debt and AT&T Broadband's assumption of $3.5 billion of AT&T long-term debt in connection with its spin-off. In addition, total liabilities decreased as a result of the settlement of AT&T's obligation to purchase the publicly owned shares of AT&T Canada and due to the impairment of our interest in AT&T Latin America.

Minority interest of discontinued operations decreased $3.3 billion at December 31, 2002, compared with December 31, 2001. The decrease was a result of the exchange or redemption of all TCI Pacific preferred shares for AT&T common stock and the November 18, 2002, spin-off of AT&T Broadband. Quarterly income preferred securities of discontinued operations decreased $4.7 billion at December 31, 2002, compared with December 31, 2001, as these securities were converted into Comcast class A common stock in conjunction with the spin-off of AT&T Broadband.

Total shareowners' equity decreased $39.4 billion, or 76.2%, to $12.3 billion at December 31, 2002, from $51.7 billion at December 31, 2001. This decrease was primarily due to a decline of $26.6 billion in additional paid-in capital principally due to a $31.0 billion reduction resulting from the spin-off of AT&T Broadband (including compensation expense triggered by the spin-off), partially offset by an increase of $2.5 billion from the June 2002 common stock offering and $2.1 billion from the exchange or redemption of all TCI Pacific preferred shares for AT&T common shares. Retained earnings decreased $13.1 billion at December 31, 2002, compared with December 31, 2001, primarily due to the net (loss) from discontinued operations partially offset by a $1.3 billion gain on the spin-off of AT&T Broadband.

During 2002, when AT&T declared its quarterly dividends to the AT&T Common Stock Group shareowners, the Company was in an accumulated deficit position. As a result, the Company reduced additional paid-in capital by $0.6 billion, the entire amount of the dividends declared.

Liquidity

Cash Flows

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Provided by operating activities of continuing operations	$10,483	$10,005	$10,641
(Used in) investing activities of continuing operations	(1,429)	(4,295)	(32,678)
(Used in) provided by financing activities of continuing operations	(6,041)	(2,778)	23,745
(Used in) provided by discontinued operations	(5,679)	7,683	(2,746)
Net (decrease) increase in cash and cash equivalents	$(2,666)	$10,615	$(1,038)

Net cash provided by ***operating activities*** of AT&T's continuing operations of $10.5 billion for the year ended December 31, 2002, was generated primarily by $11.4 billion of income from continuing operations, adjusted to exclude noncash income items and net gains on sales of businesses and investments, and a decrease in accounts receivable of $0.7 billion reflecting cash collections and lower revenue. Partially offsetting these sources of cash were a net change in other operating assets and liabilities of $1.4 billion due to lower tax liabilities as well as lower payroll and benefit-related liabilities.

Net cash provided by operating activities of continuing operations of $10.0 billion for the year ended December 31, 2001, primarily included $11.8 billion of income from continuing operations, adjusted to exclude noncash income items and net gains on sales of businesses and investments, and a decrease in accounts receivable of $0.9 billion due to lower revenue and strong cash collections in December 2001. Partially offsetting the cash provided were net changes in other operating assets and liabilities of $2.1 billion due to tax payments, and a decrease in accounts payable of $0.5 billion. Net cash provided by operating activities of continuing operations of $10.6 billion for the year ended December 31, 2000, primarily included income from continuing operations, excluding noncash income items and the adjustment for net gains on sales of businesses and investments, of $13.8 billion, partially offset by an increase in accounts receivable of $2.4 billion due to an increase in the receivables from Concert and slow customer collections at AT&T Business Services, a decrease in accounts payable of $0.6 billion and a net change in other assets and liabilities of $0.1 billion.

AT&T's ***investing activities*** resulted in a net use of cash of $1.4 billion in 2002, compared with $4.3 billion in 2001 and $32.7 billion in 2000. During 2002, AT&T spent $3.9 billion on capital expenditures, paid $3.4 billion to settle the AT&T Canada obligation and received a $5.8 billion cash distribution from AT&T Broadband in conjunction with its spin-off. In 2001, AT&T spent $5.8 billion on capital expenditures, and received approximately $1.6 billion from the sales of investments. During 2000, AT&T used approximately $23.7 billion for acquisitions of businesses, primarily MediaOne Group, Inc., and spent $7.0 billion on capital expenditures.

During 2002, net cash used in ***financing activities*** was $6.0 billion, compared with net cash used in financing activities of $2.8 billion in 2001, and net cash provided by financing activities of $23.7 billion in 2000. During 2002, AT&T made net payments of $8.2 billion to reduce debt, paid dividends of $0.6 billion, and received $2.7 billion from the issuance of AT&T common stock, primarily due to the sale of 46 million shares in the second quarter. The proceeds from this stock sale, along with funds from other short-term sources, were used to satisfy AT&T's obligation to the AT&T Canada shareholders (see investing activities above).

During 2001, AT&T made net debt payments of $6.5 billion, paid AT&T Wireless $5.8 billion to settle an intercompany loan in conjunction with its split-off from AT&T, and paid dividends of $0.5 billion. Partially offsetting these outflows in 2001 was the receipt of $9.8 billion from the issuance of convertible preferred stock to NTT DoCoMo. During 2000, AT&T received $10.3 billion from the AT&T Wireless Group tracking stock offering and had net borrowings of debt of $17.0 billion. These sources of cash were partially offset by the payment of $3.0 billion in dividends.

Working Capital and Other Sources of Liquidity

At December 31, 2002, our working capital ratio (current assets divided by current liabilities) was 1.32, reflecting the cash balance on hand as a result of cash received in conjunction with the spin-off of AT&T Broadband.

During the second and third quarters of 2002, AT&T renewed both its AT&T Business Services and AT&T Consumer Services customer accounts receivable securitization facilities. Together, the programs provide up to $2.0 billion of available financing, limited by the eligible receivables balance, which varies from month to month. Proceeds from the securitization are recorded as a borrowing and included in short-term debt. At December 31, 2002, approximately $0.2 billion was outstanding. The terms of these facilities have been extended to June (AT&T Business Services) and July (AT&T Consumer Services) of 2003.

At December 31, 2002, we had a $3.0 billion 364-day credit facility available to us that was entered into on October 9, 2002. The credit facility contains a financial covenant that requires AT&T to meet a net debt-to-EBITDA ratio (as defined in the credit agreement) not exceeding 2.25 to 1.00 for four consecutive quarters ending on the last day of each fiscal quarter. It also contains a covenant that requires AT&T to maintain $1.27 billion in unencumbered cash, cash equivalents and marketable securities. At December 31, 2002, we were in compliance with these covenants.

AT&T reduced its debt in 2002 as a result of the spin-off of AT&T Broadband on November 18, 2002. The third party debt of TCI and MediaOne Group, Inc. of $15.0 billion was included in the net assets spun-off with AT&T Broadband. This debt was included in the liabilities of discontinued operations at December 31, 2001. At the time of spin-off, AT&T and AT&T Broadband settled approximately $9.4 billion of intercompany debt and transaction-related costs. AT&T received a $5.8 billion cash distribution from AT&T Broadband, which is reflected in the cash balance at December 31, 2002. The remainder of the intercompany debt and transaction-related costs was settled via a debt exchange. In the AT&T Broadband debt exchange, $3.5 billion of outstanding AT&T notes were exchanged for notes that, upon completion of the spin-off of AT&T Broadband, became notes of AT&T Broadband and are unconditionally guaranteed by Comcast and certain of its subsidiaries. In addition, AT&T completed another exchange in which $4.6 billion of outstanding AT&T notes were exchanged for new AT&T notes that remain solely obligations of AT&T and, upon completion of the spin-off of AT&T Broadband, have revised terms, including revised maturity dates and/or interest rates.

We anticipate funding our operations in 2003 primarily with cash and cash equivalents on hand as well as cash from operations. If economic conditions worsen or do not improve and/or competition and product substitution accelerate beyond current expectations, our cash flow from operations would decrease, negatively impacting our liquidity. However, we believe our access to the capital markets is adequate to provide the flexibility in funding our operations that we desire. Sources of liquidity include the commercial paper market, a $2.4 billion universal shelf registration, the securitization program and the credit facility. However, we cannot provide any assurances that all of these sources of funding will be available at the time they are needed or in the amounts required.

Credit Ratings and Related Debt Implications

During 2002, AT&T's long-term debt ratings were lowered by Moody's and Fitch. None of AT&T's ratings are currently under review or on Credit Watch for further downgrade. As of December 31, 2002, our credit ratings were as follows:

Credit Rating Agency	Short-Term Rating	Long-Term Rating	Outlook
Standard & Poor's	A-2	BBB+	Stable*
Moody's	P-2	Baa2	Negative
Fitch Ratings	F-2	BBB+	Stable*

* Subsequent to December 31, 2002, the Outlook was changed to "Negative."

Our access to the capital markets as well as the cost of our borrowings is affected by our debt ratings. In 2002, as a result of the Moody's downgrade, the interest rate on $10.0 billion of notes sold in November 2001, increased by 50 basis points effective with interest payment periods that began after November 15, 2002, for the majority of the notes. The additional interest expense in 2002 was approximately $8 million and is estimated to be an additional $50 million in 2003. Additional debt rating downgrades could require AT&T to pay higher rates on certain existing debt, prepay certain operating leases and post cash collateral for certain interest-rate and equity swaps if we are in a net payable position.

If our ratings were downgraded below investment grade by Standard & Poor's or Moody's, there are provisions in our securitization programs, which could require the outstanding balances to be paid by the collection of the receivables. We do not believe downgrades below investment grade are likely to occur.

The holders of certain private debt with an outstanding balance of $0.9 billion at December 31, 2002, have an annual put right to cause AT&T to repay the debt upon payment of an exercise fee. In exchange for the debt holders agreeing not to exercise their put right, AT&T posted a cash-collateralized letter of credit in 2002 totaling $0.4 billion and expiring March 2005. The annual put right for 2003 expired on February 13, 2003, without exercise by the debt holders. The holders could accelerate repayment of the debt based on certain events such as the occurrence of unfavorable local law or regulation changes in its country of operation.

If AT&T's debt ratings are further downgraded, AT&T's access to the capital market may be restricted and/or such replacement financing may be more costly or have additional covenants than we had in connection with our debt at December 31, 2002. In addition, the market environment for financing in general, and within the telecommunications sector in particular, has been adversely affected by economic conditions and bankruptcies of other telecommunication providers. If the financial markets become more cautious regarding the industry/ratings category we operate in, our ability to obtain financing would be further reduced. This could negatively impact our ability to pursue acquisitions, make capital expenditures to expand our network or to pay dividends.

Cash Requirements

Our cash needs for 2003 will be primarily related to capital expenditures, repayment of debt and payment of dividends. We expect our capital expenditures for 2003 to be approximately $3.3 billion to $3.5 billion. On January 31, 2003, we completed the repurchase, with cash, of $3.7 billion of notes with interest rates of 6.375% and 6.5% and maturities of 2004 and 2013. These notes were classified as long-term debt at December 31, 2002. In addition, in connection with the early retirement in February 2003, of exchangeable notes that are indexed to AT&T Wireless stock, we made cash payments of $152 million to the debt holders, funded in part by $72 million of proceeds from the sale of our remaining AT&T Wireless shares.

AT&T is not required to make cash contributions to its principle pension plans in 2003. However, based on the final valuation of private equities and real estate for 2002, cash contributions could be required in 2004.

Contractual Cash Obligations

The following summarizes AT&T's contractual cash obligations and commercial commitments at December 31, 2002, and the effect such obligations are expected to have on liquidity and cash flow in future periods.

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
		(Dollars in millions)			
Long-term debt, including current maturities[1],[2]	$19,988	$5,470	$2,368	$4,201	$7,949
Capital lease obligations	101	4	17	7	73
Operating leases[3]	2,124	480	729	455	460
Unconditional purchase obligations[4],[5],[6],[7]	674	268	291	115	—
Total Contractual Cash Obligations	$22,887	$6,222	$3,405	$4,778	$8,482

(1) We had long-term debt that was indexed to securities (monetized debt). The total balance of monetized debt of $519 million at December 31, 2002, had scheduled maturity dates of 2005 and 2006. However, in February 2003, we redeemed those notes with a combination of shares and cash of $152 million. The portion of debt that was settled in shares is excluded from the above table and the cash payments were included in "Less than 1 Year" in the above table.

(2) We had long-term debt, with original maturity dates of 2004 and 2013, with a carrying value of $3.7 billion at December 31, 2002. This debt was settled in the first quarter of 2003 and included in "Less than 1 Year" in the above table. In connection with the settlement of this debt, we paid premiums of $124 million, which are excluded from the above table.

(3) Under certain real estate operating leases, we could be required to make payments to the lessors of up to $447 million at the end of the lease term (lease terms range from 2004 through 2007). The actual amount paid, if any, would be reduced by amounts received by the lessor upon remarketing of the property. These amounts are excluded from the above table due to the uncertainty of the dollar amounts to be paid, if any, as well as the timing of such amounts.

(4) AT&T Consumer Services has unconditional purchase obligations with multiple vendors to purchase a broad range of products and services, including the outsourcing of billing and customer care services, and the purchase of certain promotional items. Such obligations extend through 2005.

(5) AT&T has contractual obligations to utilize network facilities from local exchange carriers with terms greater than one year. Since the contracts have no minimum volume requirements, and are based on an interrelationship of volumes and discounted rates, we assessed our minimum commitment based on penalties to exit the contracts, assuming we exited the contracts on December 31, 2002. At December 31, 2002, the penalties AT&T would have incurred to exit all of these contracts would have been $2.1 billion. These amounts are excluded from the above table due to the uncertainty of the dollar amounts to be paid, if any, as well as the timing of such amounts.

(6) AT&T has contractual obligations under two contracts that extend through 2006 for services that include computer application design, development, maintenance and testing as well as the operation of data centers that host many of the computer applications operated throughout AT&T. Payments under these contracts are based in part on the volume and type of services we require. Since AT&T can terminate either or both of these contracts for convenience at any time by paying a fee, we assessed our minimum commitment based on the termination for convenience fees, which decline each year during the term of the contracts. If we elect to exit both of these contracts, the maximum termination fees we would be obligated to pay in the year of termination would be approximately $359 million in 2003, $308 million in 2004, $239 million in 2005, or $164 million in 2006. These termination fees are excluded from the above table due to the uncertainty of the dollar amounts to be paid, if any, as well as the timing of such amounts.

(7) AT&T has contractual obligations that extend through 2009 for services that include payroll and related human resource services. Payments under these contracts are based on level of service required and fluctuates based on volume. Since there is no minimum service requirement and we can exit the contract at any time by paying a termination fee, we assessed our minimum commitment based on these termination fees, assuming we terminated the contracts on December 31 of each year. Such termination fees would be approximately $50 million in 2003, $44 million in 2004, $38 million in 2005, $23 million in 2006, $11 million in 2007 or $3 million in 2008. These amounts are excluded from the above table due to the uncertainty of the dollar amounts to be paid, if any, as well as the timing of such amounts.

From time to time, we guarantee the debt of our subsidiaries, and, in connection with the separation of certain subsidiaries, these guarantees remained and we issued guarantees for certain debt and other obligations. These guarantees relate to our former subsidiaries AT&T Capital Corp., NCR, AT&T Wireless and AT&T Broadband.

We currently hold no collateral for such guarantees, and have not recorded corresponding obligations. We have been provided with cross-guarantees or indemnifications by third parties for certain of these guarantees. In the event that the financial condition of the parties to the various agreements deteriorates to the point at which they declare bankruptcy, other third parties to the agreements could look to us for payment.

	Commitments by Period				
Other Commercial Commitments	Total Amounts Committed	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
	(Dollars in millions)				
Guarantees of debt[1]	$ 506	$ —	$ —	$ —	$506
Guarantees of other obligations[2],[3]	4,968	180	4,646	142	—
Total	$5,474	$180	$4,646	$142	$506

(1) Prior to the spin-off of AT&T Broadband, we had guaranteed certain debt of AT&T Broadband, which we continue to provide. Under the terms of the merger agreement between AT&T Broadband and Comcast, if Comcast does not call the debt in 2003, they must provide us with a letter of credit in the amount of $500 million. In addition, Comcast has provided us with an indemnification for this debt.

(2) Prior to the spin-off of AT&T Broadband, we had guaranteed various obligations of AT&T Broadband, including operating leases for real estate, surety bonds, and equity hedges, which we continue to provide. Comcast has provided indemnifications for the full amount of these guarantees.

(3) AT&T provides a guarantee of an obligation that AT&T Wireless has to DoCoMo. In connection with an investment DoCoMo made in AT&T Wireless, AT&T and AT&T Wireless agreed that under certain circumstances, including that AT&T Wireless fails to meet specific technological milestones by June 30, 2004 (revised to December 31, 2004, pursuant to an amended agreement between AT&T Wireless and DoCoMo), DoCoMo would have the right to require AT&T Wireless to repurchase its AT&T Wireless common stock for $9.8 billion plus interest. In the event AT&T Wireless is unable to satisfy its entire obligation, AT&T is secondarily liable for up to $3.65 billion, plus interest.

Risk Management

We are exposed to market risk from changes in interest and foreign exchange rates, as well as changes in equity prices associated with previously affiliated companies. In addition, we are exposed to market risk from fluctuations in the prices of securities, some of which we had monetized through the issuance of debt. On a limited basis, we use certain derivative financial instruments, including interest rate swaps, options, forwards, equity hedges and other derivative contracts, to manage these risks. We do not use financial instruments for trading or speculative purposes. All financial instruments are used in accordance with board-approved policies.

We enter into foreign currency contracts to minimize our exposure to risk of adverse changes in currency exchange rates. We are subject to foreign exchange risk for foreign-currency-denominated transactions, such as debt issued, recognized payables and receivables and forecasted transactions. At December 31, 2002, our foreign currency market exposures were principally Euros, Japanese yen, and Swiss francs.

The fair value of foreign exchange contracts is subject to the changes in foreign currency exchange rates. For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% adverse change in the value of foreign currencies, assuming no change in interest rates.

For foreign exchange contracts outstanding at December 31, 2002 and 2001, assuming a hypothetical 10% appreciation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, the fair value of the foreign exchange contracts would have decreased $66 million and $492 million, respectively. The decrease in the change from 200l was primarily due to a $5.3 billion decline in the notional amount of contracts outstanding. This decline was largely due to debt under the Euro Commercial Paper Program paid down in 2002, and the satisfaction of the obligation to purchase the outstanding shares of AT&T Canada in 2002. Because our foreign exchange contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying transactions.

We have also entered into combined interest rate foreign currency contracts to hedge foreign-currency-denominated debt. At December 31, 2002 and 2001, assuming a hypothetical 10% appreciation in the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, the fair value of the combined interest rate foreign currency contracts would have decreased $0.5 billion and $0.4 billion, respectively. Because our foreign exchange contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying foreign-currency-denominated debt.

The model to determine sensitivity assumes a parallel shift in all foreign currency exchange rates, although exchange rates rarely move in the same direction. Additionally, the amounts above do not necessarily represent the actual changes in fair value we would incur under normal market conditions because all variables, other than the exchange rates, are held constant in the calculations.

We use interest rate swaps to manage the impact of interest rate changes on earnings and cash flows. We perform a sensitivity analysis on our interest rate swaps to assess the risk of changes in fair value. The model to determine sensitivity assumes a hypothetical 10% parallel shift in all interest rates. At December 31, 2002 and 2001, assuming a hypothetical 10% decrease in interest rates, the fair value of interest rate swaps would have decreased by $1 million and $2 million, respectively. We believe the decrease in fair value would be largely offset by an increase in the fair value of the underlying hedged debt.

As discussed above, we have also entered into combined interest rate foreign currency contracts to hedge foreign-currency-denominated debt. Assuming a hypothetical 10% increase in interest rates, the fair value of the contracts would have decreased by $3 million at December 31, 2002, and by a negligible amount at December 31, 2001.

The fair value of our fixed-rate long-term debt is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the market value of the debt due to differences between the market interest rates and rates at the inception of the obligation. Assuming a 10% downward shift in interest rates at December 31, 2002 and 2001, the fair value of unhedged debt would have increased by $0.7 billion and $1.0 billion, respectively.

At December 31, 2002, we had certain notes, with embedded derivatives, which were indexed to the market price of equity securities we owned. Changes in the market prices of these securities resulted in changes in the fair value of the derivatives. Assuming a hypothetical 10% increase in the market price of these equity securities, the fair value of the collars would have decreased by $46 million and $112 million at December 31, 2002 and 2001, respectively. Because these collars hedged the underlying equity securities monetized, we believed that the decrease in the fair value of the collars would have been largely offset by increases in the fair value of the underlying equity securities. The changes in fair values referenced above do not represent the actual changes in fair value we would incur under normal market conditions because all variables other than the equity prices were held constant in the calculations.

We use equity hedges to manage our exposure to changes in equity prices associated with various equity awards of previously affiliated companies. Assuming a hypothetical 10% decrease in equity prices of these companies, the fair value of the equity hedges (net liability) would have increased by $9 million at December 31, 2002, and by a negligible amount at December 31, 2001. Because these contracts are entered into for hedging purposes, we believe that the increase in fair value would be largely offset by decreases in the underlying liabilities.

In order to determine the changes in fair value of our various financial instruments, including options, equity collars and other equity awards, we use certain financial modeling techniques, including Black-Scholes. We apply rate sensitivity changes directly to our interest rate swap transactions and forward rate sensitivity to our foreign currency forward contracts.

The changes in fair value, as discussed above, assume the occurrence of certain market conditions, which could have an adverse financial impact on the Company. They do not consider the potential effect of changes in market factors that would result in favorable impacts to us, and do not represent projected losses in fair value that we expect to incur. Future impacts would be based on actual developments in global financial markets. We do not foresee any significant changes in the strategies used to manage interest rate risk, foreign currency rate risk or equity price risk in the near future.

New Accounting Pronouncements

In August 2001, the FASB issued ***SFAS No. 143, "Accounting for Asset Retirement Obligations."*** This standard requires that obligations that are legally enforceable and unavoidable, and are associated with the retirement of tangible long-lived assets, be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The offset to the initial asset retirement obligation is an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its future value, and the asset is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. For AT&T, this means that the standard was adopted on January 1, 2003. AT&T currently includes, in its group depreciation rates, an amount related to the retirement costs for certain assets. However, such amounts are not legally enforceable or unavoidable; therefore, AT&T will be required to reverse the amount accrued in accumulated depreciation. As of January 1, 2003, AT&T will report approximately $40 million as the cumulative effect of a change in accounting principles related to the adoption of SFAS No. 143. The impact of no longer including the cost of removal in the group depreciation rates for these assets, coupled with the cumulative effect impact on accumulated depreciation, will result in a decrease to depreciation expense in 2003. However, the costs incurred to remove these assets will be reflected as a cost in the period incurred as "Costs of services and products."

On June 28, 2002, the FASB issued ***SFAS No. 146, "Accounting for Exit or Disposal Activities."*** This statement addresses the recognition, measurement and reporting of costs that are associated with exit and disposal activities. This statement includes the restructuring activities that are currently accounted for pursuant to the guidance set forth in EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," costs related to terminating a contract that is not a capital lease and one-time benefit arrangements received by employees who are involuntarily terminated — nullifying the guidance under EITF 94-3. Under SFAS No. 146, the cost associated with an exit or disposal activity is recognized in the periods in which it is incurred rather than at the date the company committed to the exit plan. This statement is effective for exit or disposal activities initiated after December 31, 2002, with earlier application encouraged. Previously issued financial statements will not be restated. The provisions of EITF 94-3 shall continue to apply for exit plans initiated prior to the adoption of SFAS No. 146. Accordingly, the initial adoption of SFAS No. 146 will not have an effect on AT&T's results of operations, financial position or cash flows. Liabilities associated with future exit and disposal activities will not be recognized until actually incurred.

In December 2002, the FASB issued ***SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123."*** This standard provides alternate methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation and requires more prominent disclosure about the method used. This statement is effective for fiscal years ending after December 15, 2002. For AT&T, this means it is effective for December 31, 2002. Currently AT&T applies the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and we do not expense our stock options. However, as previously announced, AT&T will begin expensing all stock options issued after January 1, 2003, and will continue to apply the disclosure-only provisions to stock options issued prior to January 1, 2003. This method of transition is in compliance with the provisions of SFAS No. 148. The adoption of the disclosure provisions of SFAS No. 148 will not have an impact on AT&T's results of operations, financial position or cash flows; however, the expensing of the stock options issued after January 1, 2003, will have a negative impact on our results of operations. (See note 2 to the Consolidated Financial Statements for the required disclosure under this standard.)

In November 2002, the FASB issued ***FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."*** FIN 45 requires that an entity issuing a guarantee (including those embedded in a purchase or sales agreement) must recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. The recording of this liability is not dependent on the probability that the payments will be required. The offset to the liability will depend on the circumstances under which the guarantee was issued, but could include: cash/accounts receivable if it is a standalone transaction, net proceeds in a sales transaction, or expense if no compensation is received. FIN 45 also requires detailed information about each guarantee or group of guarantees even if the likelihood of making a payment is remote. The disclosure requirements of this interpretation are effective for financial statements of periods ending after December 15, 2002, which makes them effective for AT&T for December 31, 2002 (see note 9 to the Consolidated Financial Statements for the disclosures required under this interpretation). The recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. FIN 45 could have an impact on the future results of AT&T depending on guarantees issued; however, at this time we do not believe that the adoption of this statement will have a material impact on our results of operations, financial position or cash flows.

In January 2003, the FASB issued ***FIN 46, "Consolidation of Variable Interest Entities — an Interpretation of Accounting Research Bulletin (ARB) No. 51."*** FIN 46 requires the primary beneficiary to consolidate a variable interest entity (VIE) if it has a variable interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. FIN 46 applies immediately to VIEs created after January 31, 2003, and to VIEs in which the entity obtains an interest after that date. For VIEs acquired before February 1, 2003, the effective date for AT&T is July 1, 2003. AT&T is currently in the process of determining the impact of this statement on its results of operations, financial position and cash flows. The disclosures relating to our present involvement with possible VIEs and our maximum exposure to losses are included in note 18 to the Consolidated Financial Statements.

In November 2002, the EITF reached a consensus on ***EITF 00-21, "Revenue Arrangements with Multiple Deliverables,"*** related to the timing of revenue recognition for arrangements in which goods or services or both are delivered separately in a bundled sales arrangement. The EITF requires that when the deliverables included in this type of arrangement meet certain criteria they should be accounted for separately as separate units of accounting. This may result in a difference in the timing of revenue recognition but will not result in a change in the total amount of revenue recognized in a bundled sales arrangement. The allocation of revenue to the separate deliverables is based on the relative fair value of each item. If the fair value is not available for the delivered items then the residual method must be used. This method requires that the amount allocated to the undelivered items in the arrangement is their full fair value. This would result in the discount, if any, being allocated to the delivered items. This consensus is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003, which, for AT&T, is July 1, 2003. AT&T is currently evaluating the impact of this consensus on its results of operations, financial position and cash flows.

In January 2003, the EITF reached a consensus on ***EITF 02-18, "Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition."*** This consensus states that if an additional investment, in whole or in part, represents the funding of prior losses, the investor should recognize previously suspended losses. This determination would be based on various factors including whether the investment results in an increased ownership percentage, the fair value of the consideration received is equivalent to the consideration paid and whether the investment is acquired from a third party or directly from an investee. If any of these provisions are met, the additional investment would generally not be considered as funding prior losses. When appropriate to recognize prior losses, the amount recognized would be limited to the amount of the additional investment determined to represent the funding of prior losses. The consensus will be effective for additional investments made after February 5, 2003.

Subsequent Events

In January 2003, AT&T early retired $3.7 billion of long-term notes. In February 2003, AT&T redeemed exchangeable notes that were indexed to AT&T Wireless common stock and subsequently sold its remaining AT&T Wireless holdings. For further information on these items, see the contractual cash obligations table in the liquidity discussion.

REPORT OF MANAGEMENT

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results. The financial statements, which reflect the consolidated accounts of AT&T Corp. and subsidiaries (AT&T) and other financial information shown, were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel. To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions. Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

The Audit Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the internal auditors and the independent accountants to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent accountants meet privately with the Audit Committee and have access to its individual members at any time.

The consolidated financial statements in this annual report have been audited by PricewaterhouseCoopers LLP, Independent Accountants. Their audits were conducted in accordance with generally accepted auditing standards and include an assessment of the internal control structure and selective tests of transactions. Their report follows.

David W. Dorman
Chairman of the Board,
Chief Executive Officer

Thomas W. Horton
Senior Executive Vice President,
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of AT&T Corp.:

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareowners' equity and of cash flows present fairly, in all material respects, the financial position of AT&T Corp. and its subsidiaries (AT&T) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of AT&T's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for the year ended December 31, 2000 of Liberty Media Group, an equity method investee, which was acquired by AT&T on March 9, 1999. AT&T's financial statements include equity method earnings of $1,488 million for the year ended December 31, 2000. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Liberty Media Group, for the year ended December 31, 2000, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in the notes to the financial statements, AT&T was required to adopt Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

New York, New York
January 23, 2003, except for Note 20,
as to which the date is February 28, 2003

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2002	2001	2000
	Dollars in millions (except per share amounts)		
Revenue	$ 37,827	$42,197	$46,850
Operating Expenses			
Access and other connection	10,790	12,085	13,139
Costs of services and products (excluding depreciation of $3,391, $2,954 and $3,119 included below)	8,363	8,621	8,235
Selling, general and administrative	7,988	8,064	7,387
Depreciation and amortization	4,888	4,559	4,538
Net restructuring and other charges	1,437	1,036	758
Total operating expenses	33,466	34,365	34,057
Operating income	4,361	7,832	12,793
Other (expense) income, net	(77)	1,327	1,190
Interest (expense)	(1,448)	(1,493)	(1,503)
Income from continuing operations before income taxes, minority interest income, and net (losses) earnings related to equity investments	2,836	7,666	12,480
(Provision) for income taxes	(1,587)	(2,890)	(4,487)
Minority interest income	114	131	41
Equity (losses) earnings from Liberty Media Group	—	(2,711)	1,488
Net (losses) earnings related to other equity investments	(400)	(4,836)	10
Income (loss) from continuing operations	963	(2,640)	9,532
Net (loss) from discontinued operations (net of income tax benefits of $6,014, $3,715, and $1,364)	(14,513)	(4,052)	(4,863)
Gain on disposition of discontinued operations (net of income tax benefit of $61 in 2002)	1,324	13,503	—
(Loss) income before cumulative effect of accounting changes	(12,226)	6,811	4,669
Cumulative effect of accounting changes (net of income taxes of $530 and $(578))	(856)	904	—
Net (loss) income	(13,082)	7,715	4,669
Dividend requirements of preferred stock	—	(652)	—
Premium on exchange of AT&T Wireless tracking stock	—	(80)	—
(Loss) income attributable to common shareowners	$(13,082)	$ 6,983	$ 4,669
AT&T Common Stock Group — per basic share:			
Earnings (loss) from continuing operations	$ 1.29	$ (0.91)	$ 11.54
(Loss) from discontinued operations	(19.44)	(5.60)	(7.09)
Gain on disposition of discontinued operations	1.77	18.53	—
Cumulative effect of accounting changes	(1.15)	0.49	—
AT&T Common Stock Group (loss) earnings	$ (17.53)	$ 12.51	$ 4.45
AT&T Common Stock Group — per diluted share:			
Earnings (loss) from continuing operations	$ 1.26	$ (0.91)	$ 11.01
(Loss) from discontinued operations	(18.95)	(5.60)	(6.76)
Gain on disposition of discontinued operations	1.73	18.53	—
Cumulative effect of accounting changes	(1.12)	0.49	—
AT&T Common Stock Group (loss) earnings	$ (17.08)	$ 12.51	$ 4.25
AT&T Wireless Group — per basic and diluted share:			
Earnings	$ —	$ 0.08	$ 0.21
Liberty Media Group — per basic and diluted share:			
(Loss) earnings — before cumulative effect of accounting changes	$ —	$ (1.05)	$ 0.58
Cumulative effect of accounting changes	—	0.21	—
Liberty Media Group (loss) earnings	$ —	$ (0.84)	$ 0.58

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	At December 31, 2002	At December 31, 2001
	Dollars in millions	
ASSETS		
Cash and cash equivalents	$ 8,014	$ 10,680
Accounts receivable, less allowances of $669 and $754	5,286	7,153
Other receivables	173	1,431
Deferred income taxes	910	1,192
Other current assets	1,520	622
Current assets of discontinued operations	—	1,649
TOTAL CURRENT ASSETS	15,903	22,727
Property, plant and equipment, net	25,604	26,803
Goodwill, net of accumulated amortization in 2001 of $564	4,626	5,314
Other purchased intangible assets, net of accumulated amortization of $244 and $190	556	661
Prepaid pension costs	3,596	3,329
Other assets	4,987	5,144
Non-current assets of discontinued operations	—	101,503
TOTAL ASSETS	$ 55,272	$165,481
LIABILITIES		
Accounts payable	$ 3,819	$ 4,156
Payroll and benefit-related liabilities	1,519	1,606
Debt maturing within one year	3,762	10,134
Other current liabilities	2,924	3,929
Current liabilities of discontinued operations	—	5,801
TOTAL CURRENT LIABILITIES	12,024	25,626
Long-term debt	18,812	24,025
Long-term benefit-related liabilities	4,001	3,459
Deferred income taxes	4,739	2,438
Other long-term liabilities and deferred credits	3,384	7,159
Non-current liabilities of discontinued operations	—	43,071
TOTAL LIABILITIES	42,960	105,778
Minority Interest of Discontinued Operations	—	3,303
Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T of Discontinued Operations	—	4,720
SHAREOWNERS' EQUITY		
AT&T Common Stock, $1 par value, authorized 6,000,000,000 shares; issued and outstanding 783,037,580 shares (net of 171,801,716 treasury shares) at December 31, 2002 and 708,481,149 shares (net of 170,349,286 treasury shares) at December 31, 2001	783	708
Additional paid-in capital	28,163	54,798
Accumulated deficit	(16,566)	(3,484)
Accumulated other comprehensive loss	(68)	(342)
TOTAL SHAREOWNERS' EQUITY	12,312	51,680
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$ 55,272	$165,481

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

	For the Years Ended December 31,		
	2002	2001	2000
	Dollars in millions		
AT&T Common Stock			
Balance at beginning of year	$ 708	$ 752	$ 639
Shares issued (acquired), net:			
Under employee plans	6	3	1
For acquisitions	—	9	121
Settlement of put option	—	31	—
For exchange of AT&T Wireless tracking stock	—	(74)	—
For funding AT&T Canada obligation	46	—	—
Redemption of TCI Pacific preferred stock	10	—	—
Other	13	(13)	(9)
Balance at end of year	783	708	752
AT&T Wireless Group Common Stock			
Balance at beginning of year	—	362	—
Shares issued:			
For stock offering	—	—	360
Under employee plans	—	2	2
For exchange of AT&T Wireless tracking stock	—	438	—
Conversion of preferred stock	—	406	—
AT&T Wireless Group split-off	—	(1,208)	—
Balance at end of year	—	—	362
Liberty Media Group Class A Common Stock			
Balance at beginning of year	—	2,364	2,314
Shares issued (acquired), net:			
For acquisitions	—	—	62
Other	—	14	(12)
Liberty Media Group split-off	—	(2,378)	—
Balance at end of year	—	—	2,364
Liberty Media Group Class B Common Stock			
Balance at beginning of year	—	206	217
Shares issued (acquired), net	—	6	(11)
Liberty Media Group split-off	—	(212)	—
Other	—	—	—
Balance at end of year	—	—	206
Additional Paid-In Capital			
Balance at beginning of year	54,798	93,504	62,083
Shares issued (acquired), net:			
Under employee plans	328	291	100
For acquisitions	—	862	23,583
Settlement of put option	—	3,361	—
For funding AT&T Canada obligation	2,485	—	—
Redemption of TCI Pacific preferred stock	2,087	—	—
Other*	31	(1,054)	(2,804)
Proceeds in excess of par value from issuance of AT&T Wireless common stock	—	—	9,915
Gain on issuance of common stock by affiliates	—	20	530
Conversion of preferred stock	—	9,631	—
AT&T Wireless Group split-off	—	(20,955)	—
Liberty Media Group split-off	—	(30,768)	—

(continued on next page)

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY (Continued)

	For the Years Ended December 31,		
	2002	2001	2000
	Dollars in millions		
AT&T Broadband spin-off	(31,032)	—	—
Exchange of AT&T Wireless tracking stock	—	(284)	—
Beneficial conversion value of preferred stock	—	295	—
Dividends declared — AT&T Common Stock Group	(569)	(265)	—
Other	35	160	97
Balance at end of year	28,163	54,798	93,504
Guaranteed ESOP Obligation			
Balance at beginning of year	—	—	(17)
Amortization	—	—	17
Balance at end of year	—	—	—
(Accumulated Deficit)/Retained Earnings			
Balance at beginning of year	(3,484)	7,408	6,712
Net (loss) income	(13,082)	7,715	4,669
Dividends declared — AT&T Common Stock Group	—	(275)	(2,485)
Dividends accrued — preferred stock	—	(652)	—
Premium on exchange of AT&T Wireless tracking stock	—	(80)	—
Treasury shares issued at less than cost	—	(7)	(1,488)
AT&T Wireless Group split-off	—	(17,593)	—
Balance at end of year	(16,566)	(3,484)	7,408
Accumulated Other Comprehensive (Loss)			
Balance at beginning of year	(342)	(1,398)	6,979
Other comprehensive income (loss)	266	1,742	(8,377)
AT&T Wireless Group split-off	—	72	—
Liberty Media Group split-off	—	(758)	—
AT&T Broadband spin-off	8	—	—
Balance at end of year	(68)	(342)	(1,398)
Total Shareowners' Equity	$ 12,312	$ 51,680	$103,198
Summary of Total Comprehensive (Loss) Income:			
(Loss) income before cumulative effect of accounting changes	$(12,226)	$ 6,811	$ 4,669
Cumulative effect of accounting changes	(856)	904	—
Net (loss) income	(13,082)	7,715	4,669
Other comprehensive income (loss) [net of income taxes of $(169), $(1,119), and $5,348]	266	1,742	(8,377)
Comprehensive (Loss) Income	$(12,816)	$ 9,457	$ (3,708)

AT&T accounts for treasury stock as retired stock.

We have 100 million authorized shares of preferred stock at $1 par value.

* Other activity in 2001 and 2000 represents AT&T common stock received in exchange for entities owning certain cable systems.

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2002	2001	2000
	Dollars in millions		
OPERATING ACTIVITIES			
Net (loss) income	$(13,082)	$ 7,715	$ 4,669
Deduct:			
Loss from discontinued operations	(14,513)	(4,052)	(4,863)
Gain on disposition of discontinued operations	1,324	13,503	—
Cumulative effect of accounting changes — net of income taxes	(856)	904	—
Income (loss) from continuing operations	963	(2,640)	9,532
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:			
Net gains on sales of businesses and investments	(30)	(1,231)	(734)
Cost investment impairment charges	146	531	7
Net restructuring and other charges	1,418	973	577
Depreciation and amortization	4,888	4,559	4,538
Provision for uncollectible receivables	1,058	884	925
Deferred income taxes	2,631	(1,338)	1,005
Net revaluation of certain financial instruments	8	(150)	—
Minority interest income	(114)	(131)	(41)
Equity losses (earnings) from Liberty Media Group	—	2,711	(1,488)
Net losses related to other equity investments	512	7,783	51
Decrease (increase) in receivables	707	888	(2,382)
Decrease in accounts payable	(175)	(508)	(585)
Net change in other operating assets and liabilities	(1,400)	(2,126)	(148)
Other adjustments, net	(129)	(200)	(616)
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	10,483	10,005	10,641
INVESTING ACTIVITIES			
Capital expenditures and other additions	(3,878)	(5,767)	(7,025)
Proceeds from sale or disposal of property, plant and equipment	468	73	555
Increase in other receivables	—	—	(981)
Investment distributions and sales	10	1,585	414
Investment contributions and purchases	(2)	(101)	(1,787)
Net dispositions (acquisitions) of businesses, net of cash disposed/acquired	(18)	15	(23,742)
Decrease in AT&T Canada obligation	(3,449)	—	—
Proceeds from AT&T Broadband	5,849	—	—
Increase in restricted cash	(442)	—	—
Other investing activities, net	33	(100)	(112)
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(1,429)	(4,295)	(32,678)
FINANCING ACTIVITIES			
Proceeds from long-term debt issuances, net of issuance costs	79	11,392	739
Retirement of long-term debt	(1,091)	(725)	(688)
(Decrease) increase in short-term borrowings, net	(7,157)	(17,168)	16,973
Repayment of borrowings from AT&T Wireless	—	(5,803)	—
Issuance of convertible preferred securities and warrants	—	9,811	—
Issuance of AT&T common shares	2,684	224	99
Issuance of AT&T Wireless Group common shares	—	54	10,314
Net issuance (acquisition) of treasury shares	—	24	(581)
Dividends paid on common stock	(555)	(549)	(3,047)
Other financing activities, net	(1)	(38)	(64)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	(6,041)	(2,778)	23,745
Net cash (used in) provided by discontinued operations	(5,679)	7,683	(2,746)
Net (decrease) increase in cash and cash equivalents	(2,666)	10,615	(1,038)
Cash and cash equivalents at beginning of year	10,680	65	1,103
Cash and cash equivalents at end of year	$ 8,014	$ 10,680	$ 65

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. AT&T Restructuring and Discontinued Operations

In connection with the restructuring of AT&T Corp. (AT&T or the "Company") announced on October 25, 2000, AT&T Broadband, AT&T Wireless, and Liberty Media Group have all been separated from AT&T.

AT&T Broadband, which was spun-off from AT&T on November 18, 2002, was accounted for as a discontinued operation pursuant to Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In accordance with SFAS No. 144, prior period financial statements have been restated to reflect AT&T Broadband as a discontinued operation in all periods. AT&T Wireless, which was split-off from AT&T on July 9, 2001, was accounted for as a discontinued operation pursuant to Accounting Principles Board (APB) Opinion No. 30, "Reporting Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Since AT&T Wireless was separated in 2001, it was reflected as a discontinued operation in the prior year's financial statements. As discontinued operations, the revenue, costs and expenses and cash flows of AT&T Broadband and AT&T Wireless have been excluded from the respective captions in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and have been reported through their respective dates of separation as "Net (loss) from discontinued operations" and as "Net cash (used in) provided by discontinued operations." In addition, the assets and liabilities of AT&T Broadband have been excluded from the respective captions in the Consolidated Balance Sheet at December 31, 2001, and have been reported as "Current assets of discontinued operations," "Non-current assets of discontinued operations," "Current liabilities of discontinued operations," "Non-current liabilities of discontinued operations," "Minority Interest of Discontinued Operations" and "Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T of Discontinued Operations."

AT&T Broadband

On November 18, 2002, AT&T spun-off AT&T Broadband, which was comprised primarily of the AT&T Broadband segment, to AT&T shareowners. Simultaneously, AT&T Broadband combined with Comcast Corporation (Comcast) to form new Comcast. The combination was accomplished through a distribution of stock to AT&T shareowners, who received 0.3235 (1.6175 adjusted for the 1-for-5 reverse stock split) of a share of Comcast Class A common stock for each share of AT&T they owned at market close on November 15, 2002, the record date. The Internal Revenue Service (IRS) ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. Approximately 1.2 billion Comcast shares were issued to AT&T shareowners at a value of approximately $31.1 billion, based on the Comcast stock price on November 18, 2002. AT&T shareowners received a 56% economic stake and a 66% voting interest in new Comcast.

In connection with the non-pro rata spin-off of AT&T Broadband, AT&T wrote up the net assets of AT&T Broadband to fair value. This resulted in a noncash gain of $1.3 billion, which represented the difference between the fair value of the AT&T Broadband business at the date of the spin-off and AT&T's book value in AT&T Broadband, net of certain charges triggered by the spin-off and their related income tax effect. These charges included compensation expense due to the accelerated vesting of stock options as well as the enhancement of certain incentive plans. The gain was recorded as a "Gain on disposition of discontinued operations."

Revenue for AT&T's Broadband business (which included At Home Corporation, or "Excite@Home" through September 2001) was $8.9 billion, $10.1 billion and $8.4 billion for 2002, 2001 and 2000, respectively. Net (loss) from discontinued operations before income taxes was $(20.5) billion, $(8.1) billion, and $(7.1) billion for 2002, 2001, and 2000, respectively for the AT&T Broadband business. The loss for 2002 included pretax impairment charges of $16.5 billion ($11.8 billion after taxes) relating to goodwill and franchise costs which was recorded in the second quarter of 2002.

Interest expense of $359 million, $333 million and $463 million was allocated to discontinued operations in 2002, 2001 and 2000, respectively, based on the balance of intercompany debt between AT&T Broadband and AT&T. At the time of the spin-off of AT&T Broadband, this intercompany debt was settled via a $5.8 billion cash distribution from AT&T Broadband and the exchange of $3.5 billion of AT&T notes for notes of AT&T Broadband which are unconditionally guaranteed by Comcast and certain of its subsidiaries (see note 8).

At December 31, 2001, current assets of $1.6 billion, non-current assets of $101.5 billion (including net goodwill of $19.4 billion), current liabilities of $5.8 billion, non-current liabilities of $43.1 billion, minority interest of $3.3 billion, and company-obligated convertible quarterly income preferred securities of $4.7 billion were attributable to the discontinued operations of the AT&T Broadband business. Current assets were primarily comprised of accounts receivable and investments, while non-current assets were primarily comprised of goodwill, franchise costs and investments. Current liabilities were primarily comprised of short-term debt, accounts payable and payroll and benefit-related liabilities, while non-current liabilities were primarily comprised of long-term debt and deferred income taxes.

The noncash impacts of the spin-off of AT&T Broadband include a reduction to assets of approximately $84.3 billion, a reduction to liabilities of approximately $48.8 billion, the reduction of minority interest of $1.2 billion, the reduction of company-obligated convertible quarterly income preferred securities of subsidiary trust of $4.7 billion, and a reduction to shareowners' equity of approximately $29.6 billion, including the $1.3 billion noncash gain on spin-off.

AT&T Wireless

On April 27, 2000, AT&T created a new class of stock and completed a public stock offering of 360 million shares, which represented 15.6% of AT&T Wireless Group tracking stock at a price of $29.50 per share. This stock was intended to track the financial performance and economic value of AT&T's wireless services business. The net proceeds to AT&T, after deducting the underwriter's discount and related fees and expenses, were $10.3 billion. AT&T allocated $7.0 billion of the net proceeds to AT&T Wireless Group, which was used for acquisitions, network expansion, capital expenditures and general corporate purposes. AT&T utilized the remaining net proceeds of $3.3 billion for general corporate purposes.

On May 25, 2001, AT&T completed an exchange offer of AT&T common stock for AT&T Wireless stock. Under the terms of the exchange offer, AT&T issued 1.176 shares (5.88 shares adjusted for the 1-for-5 reverse stock split) of AT&T Wireless Group tracking stock in exchange for each share of AT&T common stock validly tendered. A total of 372.2 million shares (74.4 million shares adjusted for the 1-for-5 reverse stock split) of AT&T common stock were tendered in exchange for 437.7 million shares of AT&T Wireless Group tracking stock. In conjunction with the exchange offer, AT&T recorded an $80 million premium as a reduction to net income available to common shareowners. The premium represented the excess of the fair value of the AT&T Wireless Group tracking stock issued over the fair value of the AT&T common stock exchanged.

On July 9, 2001, AT&T completed the split-off of AT&T Wireless as a separate, independently traded company. All AT&T Wireless Group tracking stock was converted into AT&T Wireless common stock on a one-for-one basis, and 1,136 million shares of AT&T Wireless common stock held by AT&T were distributed to AT&T common shareowners on a basis of 0.3218 shares (1.609 shares adjusted for the 1-for-5 reverse stock split) of AT&T Wireless for each AT&T share outstanding. AT&T common shareowners received whole shares of AT&T Wireless common stock and cash payments for fractional shares. The IRS ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. For accounting purposes, the deemed effective split-off date was June 30, 2001. The impact of operating results from July 1, 2001 through July 9, 2001, were deemed immaterial to our consolidated results. The split-off of AT&T Wireless resulted in a tax-free noncash gain of $13.5 billion, which represented the difference between the fair value of the AT&T Wireless tracking stock at the date of the split-off and AT&T's book value in AT&T Wireless. This gain was recorded in 2001 as a "Gain on disposition of discontinued operations." At the time of split-off, AT&T retained approximately $3.0 billion, or 7.3%, of AT&T Wireless common stock, about half of which was used in a debt-for-equity exchange in July 2001. The remaining portion of these holdings was monetized in October and December of 2001 through the issuance of debt that was exchangeable into AT&T Wireless shares (or their cash equivalent) at maturity (see notes 7 and 8).

Revenue for AT&T Wireless was $6.6 billion for 2001 and $10.4 billion for 2000. Income from discontinued operations before income taxes for AT&T Wireless was $308 million for 2001 and $844 million for 2000. Interest expense of $153 million and $330 million was allocated to AT&T Wireless discontinued operations in 2001 and 2000, respectively, based on the debt of AT&T that was attributable to AT&T Wireless.

The noncash impacts of the split-off of AT&T Wireless reflect the split-off of approximately $39.7 billion of net assets which included a $13.5 billion noncash gain.

Lucent Technologies Inc.

Net (loss) from discontinued operations for 2002 reflects an estimated loss on a litigation settlement associated with the business of Lucent Technologies Inc. (Lucent), which was spun-off from AT&T in 1996. Sparks, et al. v. AT&T and Lucent Technologies Inc. et al., was a class action lawsuit filed in 1996 in Illinois state court. The complaint sought damages on behalf of present and former customers based on a claim that the AT&T Consumer Products business (which became part of Lucent in 1996) and Lucent had defrauded and misled customers who leased telephones, resulting in payments in excess of the cost to purchase the telephones. AT&T and Lucent have denied any wrongdoing, but settled this matter to avoid the uncertainty and expense of protracted litigation. On August 9, 2002, a settlement proposal was submitted to and accepted by the court. In accordance with the separation and distribution agreement between AT&T and Lucent, AT&T's estimated proportionate share of the settlement and legal costs totaled $45 million pretax ($33 million after-tax), reflecting a fourth quarter adjustment to the initial estimate. Depending upon the number of claims submitted and accepted, the actual cost of the settlement to AT&T may be less than stated amounts, but it is not possible to estimate the amount at this time. While similar consumer class actions are pending in various state courts, the Illinois state court has held that the class it certified covers claims in the other state court class actions.

Summary

Following is a summary of net (loss) from discontinued operations, net of income taxes:

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
AT&T Broadband, net of income tax benefits of $6,002, $3,873 and $1,671	$(14,480)	$(4,202)	$(5,399)
AT&T Wireless, net of income taxes of $(158) and $(307)	—	150	536
Lucent Technologies Inc., net of income tax benefit of $12	(33)	—	—
Net (loss) from discontinued operations, net of income taxes	$(14,513)	$(4,052)	$(4,863)

Liberty Media Corporation

As a result of our merger with Tele-Communications, Inc. (TCI) in 1999, we acquired Liberty Media Group (LMG). Although LMG was wholly owned, we accounted for it as an equity method investment since we did not have a controlling financial interest. On August 10, 2001, AT&T completed the split-off of Liberty Media Corporation (LMC) as an independent, publicly-traded company. AT&T redeemed each outstanding share of Class A and Class B LMG tracking stock for one share of Liberty Media Corporation's Series A and Series B common stock, respectively. The IRS ruled that the split-off of Liberty Media Corporation qualified as a tax-free transaction for AT&T, Liberty Media and their shareowners. The operating results of LMG through July 31, 2001, the deemed effective split-off date for accounting purposes, were reflected as "Equity (losses) earnings from Liberty Media Group." The impact of the operating results from August 1 through August 10, 2001, was deemed immaterial to our consolidated results. At the time of disposition, AT&T did not exit the line of business that Liberty Media Group operated in; therefore, at the time of its separation, Liberty Media Group was not accounted for as a discontinued operation.

Upon split-off, AT&T paid LMG $803 million pursuant to a tax-sharing agreement related to TCI net operating losses generated prior to AT&T's merger with TCI. In addition, in 2002, AT&T received approximately $114 million from LMG related to taxes pursuant to a tax-sharing agreement between LMG and AT&T Broadband, which existed prior to the TCI merger. At December 31, 2001, this receivable was included in "Accounts receivable."

Summarized results of operations for LMG were as follows:

	For the Seven Months Ended July 31, 2001	For the Year Ended December 31, 2000
	(Dollars in millions)	
Revenue	$ 1,190	$1,526
Operating (loss) income	(426)	436
(Loss) income from continuing operations before cumulative effect of accounting change	(2,711)	1,488
Cumulative effect of accounting change	545	—
Net (loss) income	(2,166)	1,488

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include all controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in majority-owned subsidiaries where control does not exist and investments in which we exercise significant influence but do not control (generally a 20% to 50% ownership interest) are accounted for under the equity method of accounting. Investments in which there is no significant influence (generally less than a 20% ownership interest) are accounted for under the cost method of accounting.

Foreign Currency Translation

For operations outside the United States that prepare financial statements in currencies other than the U.S. dollar, we translate income statement amounts at average exchange rates for the year, and we translate assets and liabilities at year-end exchange rates. We present these translation adjustments as a component of "Accumulated other comprehensive loss" within shareowners' equity. Gains and losses from foreign currency transactions are included in results of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as allowances for doubtful accounts, depreciation and amortization, employee benefit plans, taxes, restructuring reserves and contingencies.

Revenue Recognition

We recognize long distance, local voice and data services revenue based upon minutes of traffic processed or contracted fee schedules. In addition, we record an estimated revenue reduction for adjustments to customer accounts. This estimate is based on a detailed analysis that compares accounts receivable aging at different points in time to determine the appropriate level of adjustments. We recognize other products and services revenue when the products are delivered and accepted by customers and when services are provided in accordance with contract terms. For contracts where we provide customers with an indefeasible right to use network capacity, we recognize revenue ratably over the stated life of the agreement.

Advertising and Promotional Costs

We expense costs of advertising and promotions as incurred. Advertising and promotional expenses were $814 million, $874 million and $801 million in 2002, 2001 and 2000, respectively.

Income Taxes

The provision for income taxes is based on reported income before income taxes. Deferred income taxes are provided for the effect of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. Deferred tax assets and liabilities are measured using currently enacted tax laws and the effects of any changes in income tax laws are included in the provision for income taxes in the period of enactment. Valuation allowances are recognized to reduce deferred tax assets when it is more likely than not that the asset will not be realized. In assessing the likelihood of realization, we consider estimates of future taxable income, the character of income needed to realize future benefits and all available evidence. Investment tax credits are amortized as a reduction to the provision for income taxes over the useful lives of the assets that produced the credits.

Cash Equivalents

We consider all highly liquid investments with original maturities of generally three months or less to be cash equivalents.

Property, Plant and Equipment

We state property, plant and equipment at cost. Construction costs, labor and applicable overhead related to installations and interest during construction are capitalized. Costs of additions and substantial improvements to property, plant and equipment are capitalized. The costs of maintenance and repairs of property, plant and equipment are charged to operating expense. Depreciation is determined based upon the assets' estimated useful lives using either the group or unit method. The useful lives of communications and network equipment range from three to 15 years. The useful lives of other equipment ranges from three to seven years. The useful lives of buildings and improvements range from 10 to 40 years. The group method is used for most depreciable assets, including the majority of communications and network equipment. The unit method is primarily used for large computer systems, buildings and support assets. Under the group method, a specific asset group has an average life. A depreciation rate is developed based on the average useful life for the specific asset group. This method requires the periodic revision of depreciation rates. Under the unit method, assets are depreciated based on the useful life of the individual asset. When we sell or retire assets depreciated using the group method, the difference between the proceeds, if any, and the cost of the asset is charged or credited to accumulated depreciation, without recognition of a gain or loss. When we sell assets that were depreciated using the unit method, we include the related gains or losses in "Other (expense) income, net."

Property, plant and equipment is reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying value of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset.

We use accelerated depreciation methods for certain high-technology computer-processing equipment and digital equipment used in the telecommunications network, except for switching equipment placed in service before 1989, where a straight-line method is used. All other plant and equipment is depreciated on a straight-line basis.

Software Capitalization

Certain direct development costs associated with internal-use software are capitalized, including external direct costs of material and services, and payroll costs for employees devoting time to the software projects. These costs are included within "Other assets" and are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred. AT&T also capitalizes initial operating-system software costs and amortizes them over the life of the associated hardware.

AT&T also capitalizes costs associated with the development of application software incurred from the time technological feasibility is established until the software is ready to provide service to customers. These capitalized costs are included in property, plant and equipment and are amortized over a useful life not to exceed five years.

Goodwill and Other Intangible Assets

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method. Beginning January 1, 2002, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite-lived intangible assets are no longer amortized, but instead are tested for impairment at least annually (see note 3). Intangible assets that have finite useful lives are amortized over their useful lives, which range from five to 20 years.

Derivative Financial Instruments and Hedging Activities

We use derivative financial instruments to mitigate market risk from changes in interest rates, foreign currency exchange rates and equity prices. Derivative financial instruments may be exchange-traded or contracted in the over-the-counter market and include swaps, options, warrants and forward contracts. We do not use derivative financial instruments for speculative purposes.

All derivatives are recognized on the balance sheet at fair value. Certain derivatives, at inception, are designated as hedges and evaluated for effectiveness at least quarterly throughout the hedge period. These derivatives are designated as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). All other derivatives are not formally designated for accounting purposes (undesignated). These derivatives, except for warrants, although undesignated for accounting purposes, are entered into to hedge economic risks.

We record changes in the fair value of fair-value hedges, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), in "Other (expense) income, net."

We record changes in the fair value of cash-flow hedges, along with the recognized asset or liability, in "Other comprehensive income (loss)," net of income taxes, as a component of shareowners' equity, until earnings are affected by the variability of cash flows of the hedged transaction.

Changes in the fair value of undesignated derivatives are recorded in "Other (expense) income, net," along with the change in fair value of the underlying asset or liability.

We currently do not have any net investment hedges in a foreign operation.

We assess embedded derivatives to determine whether (1) the economic characteristics of the embedded instruments are not clearly and closely related to the economic characteristics of the remaining component of the financial instrument (the host instrument) and (2) whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that both conditions exist, we designate the derivatives as described above, and recognize the derivative at fair value.

We formally document all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

We discontinue hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is determined that the forecasted hedged transaction will no longer occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment, or (5) management determines that the designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued, the derivative is adjusted for changes in fair value through "Other (expense) income, net." For fair value hedges, the underlying asset or liability will no longer be adjusted for changes in fair value and any asset or liability recorded in connection with a firm commitment will be removed from the balance sheet and recorded in current period earnings. For cash flow hedges, gains and losses that were accumulated in "Other comprehensive income (loss)" as a component of shareowners' equity in connection with a forecasted transaction, will be recognized immediately in "Other (expense) income, net."

Stock-Based Compensation

As of December 31, 2002, AT&T had a Long-Term Incentive Program and an Employee Stock Purchase Plan, which are described more fully in note 12. We apply APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our plans. Accordingly, no compensation expense has been recognized for our stock-based compensation plans other than for our performance-based and restricted stock awards, stock appreciation rights (SARs), and certain occasions when we have modified the terms of the stock option vesting schedule in conjunction with the 2001 split-off of AT&T Wireless and the 2002 spin-off of AT&T Broadband.

AT&T has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If AT&T had elected to recognize compensation costs based on the fair value at the date of grant of the awards, consistent with the provisions of SFAS No. 123, net income and earnings per share amounts would have been as follows:

	AT&T Common Stock Group			AT&T Wireless Group	
For the Years Ended December 31,	**2002**	**2001**	**2000**	**2001**	**2000**
	(Dollars in millions)				
Net (loss) income	$(13,082)	$9,114	$3,105	$ 35	$ 76
Add: Stock-based employee compensation included in reported net (loss) income, net of tax	43	75	(156)	—	—
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(345)	(692)	(324)	(17)	(25)
Pro forma net (loss) income	$(13,384)	$8,497	$2,625	$ 18	$ 51
Basic (loss) earnings per share	$ (17.53)	$12.51	$ 4.45	$0.08	$0.21
Proforma basic (loss) earnings per share	$ (17.93)	$11.66	$ 3.77	$0.04	$0.14
Diluted (loss) earnings per share	$ (17.08)	$12.51	$ 4.25	$0.08	$0.21
Proforma diluted (loss) earnings per share	$ (17.47)	$11.66	$ 3.60	$0.04	$0.14

The stock-based employee compensation (expense) income, net of tax, for AT&T Common Stock Group included in income (loss) from continuing operations was $(55) million, $(71) million and $(7) million in 2002, 2001 and 2000, respectively, and included in discontinued operations was $12 million, $(4) million and $163 million in 2002, 2001 and 2000, respectively. The amounts attributed to discontinued operations included income (expense), net of tax, of $51 million, $(2) million and $166 million in 2002, 2001 and 2000, respectively, related to grants of SARs of affiliated companies held by certain employees subsequent to the TCI merger and prior to the AT&T Broadband spin-off. In addition, we entered into an equity hedge in 1999 to offset potential future compensation costs associated with these SARS. (Expense), net of tax, related to this hedge was $(56) million, $(10) million, and $(200) million in 2002, 2001, and 2000, respectively.

Total stock-based employee compensation (expense), net of tax, determined under the fair value based method for all awards related to continuing operations was $(288) million, $(562) million and $(315) million for 2002, 2001 and 2000, respectively, and related to discontinued operations was $(57) million, $(147) million and $(34) million for 2002, 2001 and 2000, respectively.

Pro forma earnings (loss) for AT&T Common Stock Group from continuing operations was $730 million, $(1,152) million and $7,736 million for 2002, 2001 and 2000, respectively, and from discontinued operations was $(14,582) million, $(4,213) million and $(5,111) million for 2002, 2001 and 2000, respectively.

Pro forma earnings (loss) for AT&T Common Stock Group per basic share from continuing operations was $0.98, $(1.58) and $11.10 for 2002, 2001 and 2000, respectively, and from discontinued operations was $(19.53), $(5.78) and $(7.33) for 2002, 2001 and 2000, respectively.

Pro forma earnings (loss) for AT&T Common Stock Group per diluted share from continuing operations was $0.96, $(1.58) and $10.59 for 2002, 2001 and 2000, respectively, and from discontinued operations was $(19.04), $(5.78) and $(6.99) for 2002, 2001 and 2000, respectively.

The pro forma effect on net loss from discontinued operations for AT&T Common Stock Group for 2002 includes expense of $28 million due to the accelerated vesting of AT&T stock options held by AT&T Broadband employees at the date of spin-off. The pro forma effect on net loss from discontinued operations for

AT&T Common Stock Group for 2001 includes expense of $10 million due to the conversion of AT&T common stock options in connection with the split-off of AT&T Wireless, and also includes expense of $12 million due to the accelerated vesting of AT&T Wireless stock options held by AT&T employees at the date of the split-off.

The pro forma effect on net loss from continuing operations available to common shareowners for 2001 includes expense of $40 million due to the conversion of AT&T common stock options in connection with the split-off of AT&T Wireless, and also includes expense of $163 million due to the accelerated vesting of AT&T Wireless stock options held by AT&T employees at the date of split-off.

Issuance of Common Stock by Affiliates

Changes in our proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such entity, are recognized as increases or decreases to additional paid-in capital in the Consolidated Statements of Shareowners' Equity.

Concentrations

As of December 31, 2002, other than the guarantee issued in connection with the split-off of AT&T Wireless (see note 9), we do not have any significant concentration of business transacted with a particular customer, supplier, lender or former affiliate that could, if suddenly adversely impacted, severely impact our operations. We also do not have a concentration of available sources of labor, services or other rights that could, if suddenly eliminated, severely impact our operations. We invest our cash with many high-quality credit institutions.

Reclassifications and Restatements

We reclassified and restated certain amounts for previous years to conform to the 2002 presentation.

3. Impacts of Recently Adopted Accounting Pronouncements

SFAS No. 142, "Goodwill and Other Intangible Assets"

Effective January 1, 2002, AT&T adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Upon adoption, goodwill was tested for impairment by comparing the fair value of our reporting units to their carrying values. As of January 1, 2002, the fair value of the reporting units' goodwill exceeded their carrying value, and therefore no impairment loss was recognized. Franchise costs were tested for impairment as of January 1, 2002, by comparing the fair value to the carrying value (at the market level). An impairment loss of $856 million, net of taxes of $530 million, was recorded relating to the discontinued operation of AT&T Broadband in the first quarter of 2002. At December 31, 2002, this amount is included in the "Cumulative effect of accounting changes" in the Consolidated Statements of Operations.

The table below presents the impact of SFAS No. 142 on net (loss) income and (loss) earnings per share, had the standard been in effect on January 1, 2000:

	AT&T Common Stock Group			AT&T Wireless Group		Liberty Media Group	
For the Years Ended December 31,	2002	2001	2000	2001	2000	2001	2000
	(Dollars in millions, except per share amounts)						
Net (loss) income:							
Reported income (loss) from continuing operations	$ 963	$ 71	$8,044	$ —	$ —	$(2,711)	$1,488
Dividend requirements of preferred stock	—	(652)	—	—	—	—	—
Premium on exchange of AT&T Wireless tracking stock	—	(80)	—	—	—	—	—
Reported income (loss) from continuing operations available to common shareowners	963	(661)	8,044	—	—	(2,711)	1,488
Add back amortization, net of tax:							
Goodwill	—	175	149	—	—	350	568
Equity method excess basis	—	37	37	—	—	346	654
Franchise costs	—	—	—	—	—	4	8
Adjusted income (loss) from continuing operations available to common shareowners	963	(449)	8,230	—	—	(2,011)	2,718
Reported (loss) income from discontinued operations	(14,513)	(4,087)	(4,939)	35	76	—	—
Add back discontinued operations amortization, net of tax	—	1,588	1,705	36	27	—	—
Gain on disposition of discontinued operations	1,324	13,503	—	—	—	—	—
Cumulative effect of accounting changes	(856)	359	—	—	—	545	—
Adjusted net (loss) income available to common shareowners	$(13,082)	$10,914	$4,996	$ 71	$ 103	$(1,466)	$2,718
Basic (loss) earnings per share:							
Reported basic earnings (loss) per share from continuing operations	$ 1.29	$ (0.91)	$11.54	$ —	$ —	$ (1.05)	$ 0.58
Add back amortization, net of tax:							
Goodwill	—	0.24	0.21	—	—	0.14	0.22
Equity method excess basis	—	0.05	0.05	—	—	0.13	0.25
Franchise costs	—	—	—	—	—	—	0.01
Adjusted basic earnings (loss) per share from continuing operations	1.29	(0.62)	11.80	—	—	(0.78)	1.06
Reported (loss) earnings from discontinued operations	(19.44)	(5.60)	(7.09)	0.08	0.21	—	—
Add back discontinued operations amortization, net of tax	—	2.18	2.45	0.08	0.08	—	—
Gain on disposition of discontinued operations	1.77	18.53	—	—	—	—	—
Cumulative effect of accounting changes	(1.15)	0.49	—	—	—	0.21	—
Adjusted basic (loss) earnings per share	$ (17.53)	$ 14.98	$ 7.16	$0.16	$0.29	$ (0.57)	$ 1.06
Diluted (loss) earnings per share:							
Reported diluted earnings (loss) per share from continuing operations	$ 1.26	$ (0.91)	$11.01	$ —	$ —	$ (1.05)	$ 0.58

	AT&T Common Stock Group			AT&T Wireless Group		Liberty Media Group	
For the Years Ended December 31,	**2002**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
	(Dollars in millions, except per share amounts)						
Add back amortization, net of tax:							
Goodwill	—	0.24	0.20	—	—	0.14	0.22
Equity method excess basis	—	0.05	0.05	—	—	0.13	0.25
Franchise costs	—	—	—	—	—	—	0.01
Adjusted diluted earnings (loss) per share from continuing operations	1.26	(0.62)	11.26	—	—	(0.78)	1.06
Reported (loss) earnings from discontinued operations	(18.95)	(5.60)	(6.76)	0.08	0.21	—	—
Add back discontinued operations amortization, net of tax	—	2.18	2.34	0.08	0.08	—	—
Gain on disposition of discontinued operations	1.73	18.53	—	—	—	—	—
Cumulative effect of accounting changes	(1.12)	0.49	—	—	—	0.21	—
Adjusted diluted (loss) earnings per share	$ (17.08)	$ 14.98	$ 6.84	$0.16	$0.29	$ (0.57)	$ 1.06

Emerging Issues Task Force (EITF) Issue 01-9, "Accounting For Consideration Given by a Vendor to a Customer"

During 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer," that cash incentives given to customers should be characterized as a reduction of revenue when recognized in the income statement, unless an identifiable benefit is received in exchange. Prior to this consensus, cash incentives to acquire customers were recorded as advertising and promotion expense within selling, general and administrative expenses. These cash incentives are now recorded as a reduction of revenue and prior periods have been reclassified to conform to this presentation. The amounts reclassified as a reduction of revenue for the years ended December 31, 2001 and 2000, were $236 million and $250 million, respectively. Net income was not affected by this reclassification.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"

On January 1, 2002, AT&T adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 applies to all long-lived assets, including discontinued operations, and consequently amends APB Opinion No. 30. The initial adoption had no impact on AT&T's results of operations, financial position or cash flows.

Adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"

Effective January 1, 2001, AT&T adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its corresponding amendments under SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. The adoption of SFAS No. 133 on January 1, 2001, resulted in a pretax cumulative-effect increase to income of $1,482 million ($904 million after-tax); $581 million ($359 million after-tax) was attributable to AT&T Group (other than LMG), and $901 million ($545 million after-tax) was attributable to LMG.

AT&T Group's cumulative-effect increase to net income of $359 million was comprised of $130 million related to continuing operations primarily attributable to warrants held in both public and private companies, and $229 million related to discontinued operations primarily attributable to embedded and non-embedded net purchase options related to indexed debt instruments.

Upon adoption, AT&T Group, as permitted by SFAS No. 133, reclassified certain securities from "available-for-sale" to "trading." This reclassification resulted in the recognition, in earnings, of losses previously recorded within "Accumulated other comprehensive loss." A portion of the loss ($1.6 billion pretax; $1.0 billion after-tax) was recorded as part of the cumulative effect of adoption. This loss completely offset a gain on the indexed debt obligation that had been considered a hedge of Comcast, Microsoft and Vodafone available-for-sale securities. The reclassification of securities also resulted in a pretax charge of $1.2 billion ($0.7 billion after-tax) recorded in "Net (loss) from discontinued operations," in the Consolidated Statements of Operations.

LMG's cumulative-effect increase to income of $545 million was primarily attributable to separately recording the embedded call option obligations associated with LMG's senior exchangeable debentures. Also included in the cumulative-effect was $87 million previously included in "Accumulated other comprehensive loss" primarily related to changes in the fair value of LMG's warrants and options to purchase certain available-for-sale securities.

4. Supplementary Financial Information

Supplementary Income Statement Information	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Included in Selling, General and Administrative Expenses:			
Research and development expenses	$ 254	$ 274	$ 313
Other (Expense) Income, Net:			
Aircraft leveraged-lease write-downs	$(244)	$ —	$ —
Cost investment impairment charges	(146)	(531)	(7)
Net revaluation of certain financial instruments	(8)	150	—
Investment-related income	116	285	435
Settlements associated with businesses disposed of	107	154	—
Net gains on sales of businesses and investments	30	1,231	734
Miscellaneous, net	68	38	28
Total other (expense) income, net	$ (77)	$1,327	$1,190

Supplementary Balance Sheet Information	At December 31,	
	2002	2001
	(Dollars in millions)	
Property, Plant and Equipment:		
Communications, network and other equipment	$48,169	$47,552
Buildings and improvements	8,129	7,969
Land and improvements	327	370
Total property, plant and equipment	56,625	55,891
Accumulated depreciation	31,021	29,088
Property, plant and equipment, net	$25,604	$26,803

	AT&T Business Services	AT&T Consumer Services	Total
	(Dollars in millions)		
Goodwill:			
Balance at December 31, 2001	$5,244	$70	$5,314
Write-off of goodwill of AT&T Latin America	(777)	—	(777)
Translation adjustment	91	—	91
Other	(2)	—	(2)
Balance at December 31, 2002	$4,556	$70	$4,626

	Gross Carrying Amount	Accumulated Amortization	Net
	(Dollars in millions)		
Intangible Assets:			
Amortizable purchased intangible assets at December 31, 2002:			
Customer lists and relationships	$557	$132	$425
Other	243	112	131
Total intangible assets	$800	$244	$556

The amortization expense associated with purchased intangible assets for the year ended December 31, 2002, was approximately $83 million. Amortization expense for purchased intangible assets is estimated to be approximately $65 million for the year ending December 31, 2003, $50 million for the year ending December 31, 2004, and $45 million for each of the years ending December 31, 2005, 2006, and 2007.

Leveraged Leases:

We lease to third parties airplanes, energy-producing facilities and transportation equipment under leveraged leases having original terms of 10 to 30 years, expiring in various years from 2004 through 2020. The investment in leveraged leases is primarily included in "Other assets." Following is a summary of our investment in leveraged leases:

	At December 31, 2002	At December 31, 2001
	(Dollars in millions)	
Rental receivables (net of nonrecourse debt*)	$ 476	$ 635
Estimated unguaranteed residual values	483	720
Unearned income	(211)	(297)
Allowance for credit losses	(23)	(28)
Investment in leverage leases (included in "Other assets")	725	1,030
Deferred taxes	932	1,063
Net investment	$(207)	$ (33)

* The rental receivables are net of nonrecourse debt of $1.4 billion and $2.0 billion at December 31, 2002 and 2001, respectively.

Supplementary Shareowners' Equity Information

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Other Comprehensive Income (Loss):			
Net foreign currency translation adjustment [net of taxes of $(82), $160 and $181][(1)]	$ 132	$ (250)	$ (309)
Net revaluation of certain financial instruments:			
Unrealized (losses) gains [net of taxes of $340, $(343) and $4,686][(2)]	(550)	475	(7,317)
Recognition of previously unrealized losses (gains) on available-for-sale securities [net of taxes of $(539), $(950) and $480][(3)]	869	1,535	(750)
Net minimum pension liability adjustment (net of taxes of $112, $14 and $1)	(185)	(18)	(1)
Total other comprehensive income (loss)	$ 266	$1,742	$(8,377)

(1) Includes LMG's foreign currency translation adjustments, net of taxes of $149 in 2001 through July 31, 2001, and $202 in 2000.

(2) Includes LMG's unrealized gains (losses) on available-for-sale securities, net of taxes of $(1,286) in 2001 through July 31, 2001, and $6,117 in 2000.

(3) See below for a summary of the "Recognition of previously unrealized losses (gains) on available-for-sale securities" and the Statement of Operations line items impacted.

Summary of Recognition of Previously Unrealized Losses (Gains) on Available-For-Sale Securities and the Statement of Operations Line Items Impacted

	For the Years Ended December 31,					
	2002		2001		2000	
	Pretax	After-tax	Pretax	After-tax	Pretax	After-tax
	(Dollars in millions)					
AT&T GROUP:						
Other (expense) income, net:						
Other-than-temporary investment impairments	$ 148	$ 91	$ 475	$ 293	$ —	$ —
Other derivative activity	28	17	—	—	—	—
Sales of various securities	—	—	(238)	(147)	(433)	(267)
Income from discontinued operations:						
Other-than-temporary investment impairments	1,232	761	510	315	290	179
Reclassification of securities to "trading" in conjunction with the adoption of SFAS No. 133*	—	—	1,154	713	—	—
Sales of various securities	—	—	555	343	(43)	(27)
LIBERTY MEDIA GROUP:						
Earnings (losses) from Liberty Media Group:						
Sales of various securities	—	—	173	105	(1,044)	(635)
Cumulative effect of accounting change*	—	—	(144)	(87)	—	—
Total recognition of previously unrealized losses (gains) on available-for-sale securities	$1,408	$869	$2,485	$1,535	$(1,230)	$(750)

* See note 3 for detailed discussion.

Supplementary Cash Flow Information	For the Years Ended December 31, 2002	2001	2000
	(Dollars in millions)		
Interest payments, net of capitalized interest of $61, $121 and $143	$1,532	$1,537	$1,420
Income tax (receipts) payments	(814)	1,441	3,379

5. Earnings per Common Share and Potential Common Share

During 2001 and 2000, in addition to AT&T Common Stock, the AT&T Wireless Group and Liberty Media Group tracking stocks were outstanding. The tracking stocks represented an interest in the economic performance of the net assets of each of the respective groups. The earnings attributable to AT&T Wireless Group and Liberty Media Group were excluded from the earnings attributable to the AT&T Common stock group. On July 9 and August 10, 2001, AT&T Wireless and Liberty Media Group, respectively, were separated from AT&T and the tracking stocks were redeemed (see note 1).

Income (loss) attributable to the different classes of AT&T common stock is as follows:

	AT&T Common Stock Group			AT&T Wireless Group			Liberty Media Group		
	For the Years Ended December 31,								
	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(Dollars in millions)								
Income (loss) from continuing operations before cumulative effect of accounting change	$ 963	$ 71	$ 8,044	$—	$—	$—	$—	$(2,711)	$1,488
Dividend requirements of preferred stock	—	(652)	—	—	—	—	—	—	—
Premium on exchange of AT&T Wireless tracking stock	—	(80)	—	—	—	—	—	—	—
Income (loss) from continuing operations attributable to common shareowners	963	(661)	8,044	—	—	—	—	(2,711)	1,488
(Loss) income from discontinued operations	(14,513)	(4,087)	(4,939)	—	35	76	—	—	—
Gain on disposition of discontinued operations	1,324	13,503	—	—	—	—	—	—	—
Cumulative effect of accounting changes	(856)	359	—	—	—	—	—	545	—
Net (loss) income attributable to common shareowners	$(13,082)	$ 9,114	$ 3,105	$—	$35	$76	$—	$(2,166)	$1,488

AT&T Common Stock Group

On November 18, 2002, a 1-for-5 reverse stock split of AT&T common stock as approved by shareowners on July 10, 2002, was effected. Shares (except shares authorized) and per share amounts were restated to reflect the stock split on a retroactive basis.

Basic earnings per common share (EPS) is computed by dividing income attributable to common shareowners by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution (considering the combined income and share impact) that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The potential issuance of common stock is assumed to occur at the beginning of the year, and the incremental shares are included using the treasury stock method, which assumes the proceeds (after-tax) from exercise are used by the Company to purchase common stock at the average market price during the period. The incremental shares (difference between the shares assumed to be issued and the shares assumed to be purchased), to the extent they would have been dilutive, are included in the denominator of the diluted EPS calculation.

A reconciliation of the share components for AT&T Common Stock Group basic to diluted EPS calculations is as follows:

	For the Years Ended December 31,		
	2002[1]	2001[1],[2]	2000[1]
	(Shares in millions)		
Weighted-average common shares	746	729	697
Effect of dilutive securities:			
Stock options	1	—	4
Preferred stock of subsidiary	3	—	8
Convertible quarterly income preferred securities	16	—	14
Excite@Home Put Options	—	—	8
Weighted-average common shares and potential common shares	766	729	731

(1) For 2002, 2001 and 2000, no adjustments were made to income for the computation of diluted EPS.

(2) As AT&T reported a loss from its continuing operations for 2001, the effects of including incremental shares are antidilutive; therefore, both basic and diluted EPS reflect the same calculation.

Preferred Stock of Subsidiary

Pursuant to the AT&T Broadband and Comcast merger agreement, AT&T was required to redeem the outstanding TCI Pacific Communications, Inc. Class A Senior Cumulative Exchangeable Preferred Stock (TCI Pacific preferred stock) for AT&T common stock. All outstanding shares of TCI Pacific preferred stock were either exchanged or redeemed for AT&T common stock during 2001 and 2002 (see note 10). At December 31, 2001, the carrying value of TCI Pacific preferred stock was included in "Minority Interest of Discontinued Operations." Dividends were included in "Net (loss) from discontinued operations" for 2002, 2001 and 2000.

Convertible Quarterly Income Preferred Securities (Quarterly Preferred Securities)

On June 16, 1999, AT&T Finance Trust I, a wholly owned subsidiary of AT&T, completed the private sale of 100 million shares of 5.0% cumulative quarterly income preferred securities (quarterly preferred securities) to Microsoft Corporation. Such securities were convertible into AT&T common stock. However, in connection with the AT&T Broadband spin-off (see note 1), Comcast assumed the quarterly preferred securities and Microsoft agreed to convert these preferred securities into shares of Comcast common stock. At December 31, 2001, these securities were included in "Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T of Discontinued Operations." Dividends were included in "Net (loss) from discontinued operations" for 2002, 2001 and 2000.

AT&T Wireless Group

Basic EPS from discontinued operations for AT&T Wireless Group for 2001 through June 30, 2001, the deemed effective split-off date for accounting purposes, and from April 27, 2000, the stock offering date, through December 31, 2000, was computed by dividing income attributable to AT&T Wireless Group by the weighted-average number of shares outstanding of AT&T Wireless Group of 438 million and 361 million, respectively.

Liberty Media Group

Basic (loss) earnings per share for LMG was computed by dividing (loss) income attributable to LMG by the weighted-average number of LMG shares outstanding of 2,582 million in 2001 through July 31, 2001, the deemed effective split-off date for accounting purposes, and 2,572 million in 2000. Potentially dilutive securities, including fixed and nonvested performance awards and stock options, have not been factored into the dilutive calculations because past history indicated that these contracts were generally settled in cash.

6. Net Restructuring and Other Charges

In 2002, net restructuring and other charges were $1,437 million which included a $1,029 million charge for the impairment of the net assets of our consolidated subsidiary, AT&T Latin America. In December 2002, the AT&T Board of Directors approved a plan for AT&T to sell its approximate 95% voting stake in AT&T Latin America in its current condition. On December 31, 2002, we signed a non-binding term sheet for the sale of our shares within one year for a nominal amount. As a result of this plan, we classified AT&T Latin America as an asset held for sale at fair market value, in accordance with SFAS No. 144. Consequently, there are approximately $160 million of assets (principally cash and accounts receivable) included in Other Current Assets and approximately $160 million of liabilities (principally secured short-term debt) included in Other Current Liabilities. The $1,029 million charge to write the assets and liabilities down to their fair values was reported within our AT&T Business Services segment.

Also included in net restructuring and other charges was a $204 million impairment charge related to certain Digital Subscriber Line (DSL) assets (including internal-use software, licenses, and property, plant & equipment) that will not be utilized by AT&T as result of changes to our "DSL build" strategy. Instead of building DSL capabilities in all geographic areas initially targeted, we have signed an agreement with Covad Communications to offer DSL services over their network. As a result, the assets in these areas were impaired. This charge was reported within our AT&T Consumer Services segment.

In 2002, AT&T recorded net business restructuring charges of $204 million. These activities consisted of new exit plans totaling $377 million and reversals of $173 million. The new plans primarily consisted of $334 million for employee separation costs ($28 million of which was recorded as a pension liability associated with management employees to be separated in 2002 which will be funded from the pension trust) and $39 million of facility closing reserves. Slightly more than 4,800 employees will be separated in conjunction with these exit plans, approximately one-half of which are management employees and one-half are non-management employees. The majority of these employee separations will be involuntary. Approximately 14% of the employees affected by these exit plans had left their positions by December 31, 2002, and we expect those remaining to leave their positions by the end of 2003.

The $173 million reversal primarily consisted of $124 million of employee separation costs (approximately $48 million of which was reversed from the pension liability) and $26 million related to prior plan facility closings that were deemed to be no longer necessary. The reversals were primarily due to management's determination that the restructuring plan established in the fourth quarter of 2001 for certain areas of AT&T Business Services, including network services, needed to be modified given current industry conditions, as well as the redeployment of certain employees to different functions within the Company.

The following table displays the activity and balances of the restructuring reserve account:

	Type of Cost			
	Employee Separations	Facility Closings	Other	Total
	(Dollars in millions)			
Balance at January 1, 2000	$ 150	$ 239	$ 21	$ 410
Additions	442	2	62	506
Deductions	(350)	(67)	(47)	(464)
Balance at December 31, 2000	242	174	36	452
Additions	474	166	12	652
Deductions	(230)	(36)	(29)	(295)
Balance at December 31, 2001	486	304	19	809
Additions	306	78	—	384
Deductions	(413)	(99)	(16)	(528)
Balance at December 31, 2002	$ 379	$ 283	$ 3	$ 665

In addition to the new exit plans recorded during 2002, total additions for 2002 in the table above also includes $39 million facility closing reserves recorded by Concert in 2001 and transferred to AT&T during 2002 as part of the unwind of that joint venture.

Deductions reflect cash payments of $366 million, $249 million and $410 million for 2000, 2001 and 2002, respectively. These payments included cash termination benefits of $254 million, $202 million and $328 million, for 2000, 2001 and 2002, respectively, which were primarily funded through cash from operations. In 2000, 2001 and 2002, reserves of $98 million, $13 million and $9 million, respectively, were transferred out of the restructuring liability to long-term liability accounts as a result of exiting managers deferring severance payments, primarily related to executives. Also included in 2001 and 2002 deductions are reversals of prior business restructuring reserves of $33 million and $109 million, respectively. The business restructuring plans of 2000 and 2001 were substantially complete as of December 31, 2001 and 2002, respectively.

During 2001, net restructuring and other charges were $1,036 million which were primarily comprised of $862 million for employee separations, of which $388 million related to benefits to be paid from pension assets as well as pension and postretirement curtailment losses, and $166 million for facility closings. These charges were slightly offset by the reversal of $33 million related to business restructuring plans announced in the fourth quarter 1999 and the first quarter 2000 (of which $15 million related to employee separations and $18 million related to contract terminations).

The charge covered separation costs for approximately 10,000 employees, approximately one-half of whom were management employees and one-half were non-management employees. More than 9,000 employee separations related to involuntary terminations and the remaining 1,000 were voluntary.

During 2000, we recorded $758 million of net restructuring and other charges which included $586 million for employee separations, of which $144 million primarily related to pension and postretirement curtailment losses, $91 million related to the government-mandated disposition of AT&T Communications (U.K.) Ltd., which would have competed directly with Concert and $62 million of network lease and other contract termination costs associated with penalties incurred as part of notifying vendors of the termination of these contracts during the year.

The charge covered separation costs for approximately 6,100 employees, approximately one-half of whom were management employees and one-half were non-management employees. Approximately 5,500 of the employee separations were related to involuntary terminations and approximately 600 related to voluntary terminations.

7. Investments

Equity Method Investments

We have investments in various companies and partnerships that are accounted for under the equity method of accounting and included within "Other assets." Under the equity method, investments are stated at initial cost, and are adjusted for subsequent contributions and our share of earnings, losses and distributions as well as declines in value that are "other than temporary." At December 31, 2002 and 2001, we had equity investments of $135 million and $313 million, respectively. Distributions from equity investments totaled $5 million, $25 million and $13 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Summarized combined financial information for investments accounted for under the equity method that were significant to AT&T's financial results in 2001 is as follows:

	Concert[1]		AT&T Canada			Other Equity Investments[2]	
For the Years Ended December 31,	**2001**	**2000**	**2002**	**2001**	**2000**	**2001**	**2000**
			(Dollars in millions)				
Revenue	$ 6,189	$7,748	$ 947	$1,000	$1,001	$3,813	$11,751
Operating (loss) income	(3,574)	329	(853)	(226)	(225)	86	542
(Loss) income from continuing operations before extraordinary items & cumulative effect of accounting changes	(3,609)	103	(1,247)	(521)	(351)	(18)	307
Net (loss) income	$(3,609)	$ 103	$(2,220)	$ (518)	$ (351)	$ (20)	$ 260

At December 31,	**2001**	**2002**	**2001**	**2001**
		(Dollars in millions)		
Current assets	$ 3,744	$ 386	$ 391	$ 171
Non-current assets	1,758	496	2,577	645
Current liabilities	4,296	3,152	256	179
Non-current liabilities	76	41	2,963	589
Redeemable preferred stock	—	—	—	7
Minority interest	—	—	—	—

(1) The Concert joint venture was unwound in April 2002; therefore, financial information for 2002 is not applicable.

(2) AT&T did not have any individually significant equity investments in 2002 and on a combined basis such investments were not significant to AT&T's 2002 financial results.

Concert

On April 1, 2002, Concert, our 50% owned joint venture with British Telecommunications plc (BT), was officially unwound and the venture's assets and customer accounts were distributed back to the parent companies, as agreed to in 2001. Under the partnership termination agreement, each of the partners generally reclaimed the customer contracts and assets that were initially contributed to the joint venture, including international transport facilities and gateway assets. In addition, AT&T assumed certain other assets that BT originally contributed to the joint venture.

In 2001, the agreement to dissolve the Concert venture impacted AT&T's intent and ability to hold its investment in Concert; therefore, AT&T recorded a $1.8 billion after-tax impairment charge ($2.9 billion pretax) included in "Net (losses) related to other equity investments." The charge related to the difference between the fair market value of the net assets AT&T was to receive in the transaction and the carrying value of AT&T's investment in Concert. Certain items reserved for in 2001 were favorably settled resulting in a $60 million after-tax reversal in 2002, recorded within "Net (losses) earnings related to other equity investments."

AT&T Canada

At December 31, 2002, AT&T had an approximate 31% ownership interest in AT&T Canada. Pursuant to a 1999 merger agreement, AT&T had a commitment to purchase, or arrange for another entity to purchase, the publicly owned shares of AT&T Canada for the Back-end Price, which was the greater of the contractual floor price or the fair market value. The floor price accreted 4% each quarter, commencing on June 30, 2000.

In 2002 and 2001, AT&T recorded charges reflecting the estimated loss on this commitment. The charges represented the difference between the underlying value of the publicly owned AT&T Canada shares and the price AT&T had committed to pay for them, including the 4% accretion of the floor price. After-tax charges of $0.3 billion ($0.5 billion pretax) and $1.8 billion ($3.0 billion pretax) were recorded within "Net (losses) related to other equity investments" for 2002 and 2001, respectively. At December 31, 2001, this liability of $3.0 billion was included in "Other long-term liabilities and deferred credits."

During 2002, AT&T arranged for third parties (Tricap Investment Corporation and CIBC Capital Partners) to purchase the remaining 69% equity in AT&T Canada. As part of this agreement, AT&T agreed to fund the purchase price on behalf of the third parties. Tricap and CIBC Partners made a nominal payment to AT&T upon completion of the transaction. Although AT&T held an approximate 31% ownership interest in AT&T Canada throughout 2002, it did not record equity earnings or losses since its investment balance was written down to zero largely through losses generated by AT&T Canada. Subsequent to December 31, 2002, AT&T entered into an agreement to dispose of its stake in AT&T Canada. In February 2003, pursuant to that agreement, AT&T disposed of substantially all of its AT&T Canada shares.

Impairments — Equity Investments

Declines in value of equity method investments judged to be other-than-temporary are recorded in "Net (losses) related to other equity investments." In 2002 and 2001, we recorded impairment charges on equity method investments of $0.3 billion after-tax ($0.5 billion pretax), and $4.3 billion after-tax ($7.0 billion pretax), respectively.

The 2002 charges primarily related to AT&T Canada and the 2001 charges primarily related to AT&T Canada and Concert, as discussed above. In addition, in 2001, we recorded an impairment charge on our investment in Net2Phone, Inc. (Net2Phone) of $0.7 billion after-tax ($1.1 billion pretax). This charge resulted from the deterioration of market valuations of Internet-related companies. In October 2001, AT&T contributed its investment in Net2Phone to NTOP Holdings, LLC (NTOP), and received ownership in NTOP. At December 31, 2001 AT&T retained an approximate 10% interest in NTOP, which was accounted for as a cost method investment. It was subsequently sold in December 2002.

Cost Method Investments

At December 31, 2002 and 2001, we had cost method investments included in "Other assets" of $0.6 billion and $1.6 billion, respectively. Under the cost method, earnings are recognized only to the extent distributions are received from the accumulated earnings of the investee. Distributions received in excess of accumulated earnings are recognized as a reduction of our investment balance. The Company's cost investments are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded as a separate component of "Other comprehensive income (loss)" in shareowners' equity. At December 31, 2002 and 2001, approximately $0.5 billion and $1.3 billion, respectively, of these investments were indexed to certain long-term debt instruments (see note 8).

Impairments — Cost Investments

Declines in value of available-for-sale securities, judged to be other-than-temporary, are recorded in "Other (expense) income, net." During 2002 and 2001, we believed that certain investments would not recover our cost basis in the foreseeable future given the significant decline in stock prices, the length of time these investments had been below market, and industry specific issues. Accordingly, we believed the declines in value were other-than-temporary and, as a result, recorded investment impairment charges on such securities of $0.1 billion after-tax ($0.1 billion pretax) and $0.3 billion after-tax ($0.5 billion pretax) for 2002 and 2001, respectively, consisting primarily of charges related to Time Warner Telecom in both years. In addition, during 2002, we recorded a pretax impairment charge of $0.6 billion related to our holdings in AT&T Wireless, which is monetized by debt indexed to the value of the AT&T Wireless shares (see note 8). The debt contains an embedded derivative that is designated as a cash flow hedge. At the time we recognized the other-than-temporary decline in the value of AT&T Wireless as an expense, as permitted by SFAS No. 133, we also recognized, in earnings, the previously unrecognized gain on the embedded derivative of $0.6 billion pretax, resulting in no net income impact.

AT&T Wireless Group

On July 9, 2001, AT&T completed the split-off of AT&T Wireless (see note 1). At that time, AT&T retained an approximate 7.3% interest in AT&T Wireless common stock. In 2001, we recorded a $0.5 billion tax-free gain associated with the disposal of a portion of this ownership interest in a debt-for-equity exchange in "Other (expense) income, net."

In February 2003, AT&T redeemed exchangeable notes that were indexed to AT&T Wireless common stock. The notes were settled with 78.6 million AT&T Wireless shares (see note 8). Subsequently, AT&T sold its remaining AT&T Wireless shares (approximately 12.2 million shares) for $72 million in cash, resulting in a gain of $22 million.

Japan Telecom Co. Ltd

On April 27, 2001, AT&T completed the sale of its 10% stake in Japan Telecom Co. Ltd to Vodafone for $1.35 billion in cash. The proceeds from the transaction were split evenly between AT&T and AT&T Wireless Group since AT&T Wireless Group held approximately one-half of AT&T's investment. The transaction resulted in a pretax gain of approximately $0.5 billion recorded in "Other (expense) income, net" and a pretax gain of approximately $0.5 billion recorded in "Net (loss) from discontinued operations."

8. Debt Obligations

Debt Maturing within One Year	At December 31, 2002	2001
	(Dollars in millions)	
Commercial paper	$1,091	$ 5,087
Short-term notes	1,086	3,970
Currently maturing long-term debt	1,581	955
Other	4	122
Total debt maturing within one year	$3,762	$10,134
Weighted-average interest rate of short-term debt	3.7%	5.0%

Securitizations

During 2002, AT&T renewed both its AT&T Business Services and AT&T Consumer Services customer accounts receivable securitization facilities, the terms of which have been extended to June (AT&T Business Services) and July (AT&T Consumer Services) of 2003. Together, the 2002 programs provide up to $2.0 billion of available financing, limited by monthly eligible receivable balances, which vary from month to month. At December 31, 2002, the available financing was collateralized by $4.6 billion of accounts receivable. Approximately $0.2 billion and $2.3 billion was outstanding at December 31, 2002 and 2001, respectively, and was included in "Short-term notes" in the table above. Under the program, accounts receivable are sold on a discounted, revolving basis, to special-purpose, wholly-owned and fully consolidated subsidiaries of AT&T, which assign interests in such receivables to unrelated third-party financing entities.

Credit Facility

At December 31, 2002, we had a $3.0 billion 364-day credit facility available to us that was entered into on October 9, 2002. The credit facility contains a financial covenant that requires AT&T to meet a net debt-to-EBITDA ratio (as defined in the credit agreement) not exceeding 2.25 to 1.00 for four consecutive quarters ending on the last day of each fiscal quarter. It also contains a covenant that requires AT&T to maintain $1.27 billion in unencumbered cash, cash equivalents and marketable securities. At December 31, 2002, we were in compliance with these covenants.

Long-Term Debt

Debentures and Notes		At December 31,	
Interest Rates(2)	Maturities	2002(1)	2001(1)
		(Dollars in millions)	
4.59% - 6.00%	2004 - 2009	$ 1,455	$ 6,760
6.06% - 6.50%	2004 - 2029	6,678	4,960
6.75% - 7.50%	2004 - 2006	2,449	4,459
7.75% - 8.85%	2003 - 2031	6,796	5,328
9.90% - 19.95%(3)	2004 - 2004	13	21
Variable rate	2003 - 2054	3,012	3,440
Total debentures and notes		20,403	24,968
Other		105	162
Unamortized discount, net		(115)	(150)
Total long-term debt		20,393	24,980
Less: Currently maturing long-term debt		1,581	955
Net long-term debt		$18,812	$24,025

(1) Debt amounts are included within the range of interest rates that are applied at each respective balance sheet date. See below for discussion on interest rate changes that occurred during 2002.

(2) The actual interest paid on our debt obligations may have differed from the stated amount due to our entering into interest rate swap contracts to manage our exposure to interest rate risk and our strategy to reduce finance costs (see note 9).

(3) Interest rates greater than 10% are related to $8 million in bank loans held by AT&T Latin America in 2001. In 2002, AT&T Latin America is classified as an "asset held for sale," and accordingly its associated liabilities, including debt, was recorded at fair value and included in "Other current liabilities" at December 31, 2002 (see note 6).

The following table shows maturities at December 31, 2002, of the $20,393 million in total long-term obligations:

2003	2004	2005	2006	2007	Later Years
		(Dollars in millions)			
$1,581	$2,437	$1,185	$4,328	$296	$10,566

In connection with the spin-off of AT&T Broadband, AT&T completed two debt exchanges. In the AT&T Broadband debt exchange, $3.5 billion of outstanding AT&T notes (with interest rates ranging from 6.0% to 8.63%) were exchanged for notes that, upon completion of the spin-off of AT&T Broadband, became notes of AT&T Broadband and are unconditionally guaranteed by Comcast and certain of its subsidiaries.

Also, $4.6 billion of outstanding long-term AT&T notes (with fixed interest rates ranging from 5.63% to 8.0%, and maturities of 2004, 2025 and 2029) were exchanged for new AT&T notes (with fixed interest rates ranging from 6.38% to 8.6%, and maturities of 2004, 2013 and 2025) that upon completion of the spin-off of AT&T Broadband, have revised terms, including revised maturity dates and/or interest rates.

As a result of a long-term debt rating downgrade by Moody's, the interest rate on approximately $10.0 billion of notes (with interest rates ranging from 6.0% to 8.0%) sold in November 2001, increased by 50 basis points effective with interest payment periods that begin after November 15, 2002, for the majority of the notes.

The holders of certain private debt with an outstanding balance of $0.9 billion at December 31, 2002, have an annual put right to cause AT&T to repay the debt upon payment of an exercise fee. In exchange for the debt holders agreeing to not exercise their put right for 2002, AT&T posted a cash-collateralized letter of credit in 2002, totaling $0.4 billion, and expiring in March, 2005. The $0.4 billion is considered restricted cash and is included in "Other assets" at December 31, 2002. The annual put right in 2003 expired on February 13, 2003, without exercise by the debt holders. The debt holders could accelerate repayment of the debt based on certain events such as the occurrence of unfavorable local law or regulation changes in its country of operation.

On January 31, 2003, AT&T completed the early retirement of approximately $1,152 million and $2,590 million long-term notes, with interest rates of 6.375% and 6.50%, due in March 2004 and March 2013, respectively. The notes were repurchased with cash and resulted in a loss of $178 million recorded in "Other (expense) income, net" in the first quarter of 2003.

Exchangeable Notes

During 2001, we issued long-term debt (exchangeable notes) that was indexed to AT&T Wireless common stock and, at AT&T's option, was mandatorily redeemable with a number of shares of AT&T Wireless common stock that was equal to the underlying shares multiplied by an exchange ratio, or its cash equivalent. The notes were accounted for as indexed debt instruments because the carrying value of the debt was dependent upon the fair market value of the underlying securities. In addition, the notes contained embedded derivatives that required separate accounting. The economic characteristics of the embedded derivatives (i.e. equity-like features) were not clearly and closely related to those of the host instruments (a debt security). As a result, the embedded derivatives were separated from the host debt instrument for valuation purposes and were carried at fair value within the host debt instrument. The embedded derivatives for these exchangeable notes were designated as cash flow hedges. The options hedged the market risk of a decline in value of AT&T Wireless securities. The market risk of a decline in these securities, below the respective put prices, had been eliminated. In addition, any market gains we may have earned had been limited to the call prices. These designated options were carried at fair value with changes in fair value recorded, net of income taxes, within "Accumulated other comprehensive loss" as a component of shareowners' equity. There was no ineffectiveness recognized on the cash flow hedges.

The shares of AT&T Wireless common stock were accounted for as "available-for-sale" securities under SFAS No. 115 with changes in the carrying value of the underlying securities that are not "other-than-temporary" being recorded as unrealized gains or losses, net of income taxes, within "Other comprehensive income (loss)" as a component of shareowners' equity. See note 7 for a discussion of impairments recorded in 2002.

Following is a summary of the exchangeable notes outstanding at December 31, 2002:

Maturities	Face Value	Interest Rate	Put Price Per Share	Call Price Per Share	Carrying Value
		(Dollars in millions except per share amounts)			
Indexed to 45.8 million shares of AT&T Wireless common stock:					
2005	$220	LIBOR + 0.4%	$14.41	$18.87	$87
2006	220	LIBOR + 0.4%	14.41	19.31	87
2006	220	LIBOR + 0.4%	14.41	19.74	87
Indexed to 45 million shares of AT&T Wireless common stock:					
2006	$204	LIBOR + 0.4%	$13.57	$19.03	$85
2006	201	LIBOR + 0.4%	13.37	19.27	86
2006	204	LIBOR + 0.4%	13.57	19.90	87

In February 2003, AT&T redeemed these exchangeable notes that had a carrying value of $652 million at the time of settlement. The notes were settled with 78.6 million shares of AT&T Wireless common stock and

$152 million in cash. The settlement resulted in a pretax gain of approximately $176 million. The 12.2 million remaining AT&T Wireless shares were subsequently sold (see note 7).

9. Financial Instruments

In the normal course of business, we use various financial instruments, including derivative financial instruments, for purposes other than trading. These instruments include letters of credit, guarantees of debt and certain obligations of former affiliates, interest rate swap agreements, foreign currency exchange contracts, option contracts, equity contracts and warrants. Collateral is generally not required for these types of instruments. However, as the requirements for collateral are generally dependent upon debt ratings and market conditions, AT&T may be required to post collateral for interest rate and equity swaps, as well as letters of credit in the future.

By their nature, all such instruments involve risk, including the credit risk of nonperformance by counter-parties, and our maximum potential loss may exceed the amount recognized in our balance sheet. However, at December 31, 2002 and 2001, in management's opinion, there was no significant risk of loss in the event of nonperformance of the counter-parties to these financial instruments. We control our exposure to credit risk through credit approvals, credit limits and monitoring procedures. Other than the guarantee issued in connection with the split-off of AT&T Wireless, we do not have any significant exposure to any individual customer or counter-party, nor do we have any major concentration of credit risk related to any financial instruments.

Letters of Credit

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions. Management has determined that the Company's letters of credit do not create additional risk to AT&T.

The notional amounts outstanding at December 31, 2002 and 2001, were $923 million and $408 million, respectively. The letters of credit in effect at December 31, 2002, were collateralized by restricted cash of $496 million, of which $442 million was recorded in "Other assets" and $54 million was recorded in "Other current assets." The fair values of the letters of credit, based on the fees paid to obtain the obligations, were immaterial at December 31, 2002 and 2001.

Guarantees

From time to time, we guarantee the debt of our subsidiaries, and, in connection with the separation of certain subsidiaries, we issued guarantees for certain debt and other obligations of our former subsidiaries AT&T Capital Corp., NCR, AT&T Wireless and AT&T Broadband. We also issue indemnifications as part of our software license agreements.

Total notional amounts of guaranteed debt at December 31, 2002 and 2001, were $506 million and $59 million, respectively. Prior to the spin-off of AT&T Broadband, we had guaranteed certain debt of AT&T Broadband that matures in 2038. Such guarantee remained outstanding after the spin-off of AT&T Broadband and at December 31, 2002 totaled $500 million. Comcast has provided us with an indemnification for this debt and, under the terms of the merger agreement between AT&T Broadband and Comcast, if Comcast does not call the debt in 2003 they must provide us with a letter of credit in the amount of $500 million. The remaining guarantees for debt have expiration dates ranging from 2003 to 2020. Should the financial condition of debtors, including AT&T Broadband and Comcast, deteriorate to the point at which they are unable to meet their obligations, third party creditors could look to us for payment. We currently hold no collateral for these guarantees, and have not recorded corresponding obligations. At December 31, 2002 and 2001, there were no quoted market prices for similar agreements.

AT&T provides a guarantee of an obligation that AT&T Wireless has to NTT DoCoMo (DoCoMo). The amounts of the guarantee at December 31, 2002 and 2001, were $4.1 billion and $3.9 billion, respectively. On January 21, 2001, DoCoMo invested approximately $9.8 billion for shares of AT&T preferred stock that were converted into AT&T Wireless common stock in connection with the split-off of AT&T Wireless. Of the initial investment, AT&T retained approximately $3.6 billion, with the remainder of the proceeds allocated to AT&T Wireless. In connection with that investment, AT&T and AT&T Wireless agreed that, under certain circumstances, including if AT&T Wireless fails to meet specific technological milestones by June 30, 2004, DoCoMo would have the right to require AT&T Wireless to repurchase its AT&T Wireless common stock for $9.8 billion, plus interest. In the event AT&T Wireless is unable to satisfy the entire obligation, AT&T is secondarily liable for up to $3.65 billion, plus accrued interest. On December 26, 2002, AT&T Wireless and DoCoMo entered into an amendment to the original agreement which, among other things, extended the deadline for compliance with the technological milestones to December 31, 2004. We currently hold no collateral for this guarantee, and have not recorded a corresponding obligation. At December 31, 2002 and 2001, there were no quoted market prices for similar agreements.

The total notional amount of other guaranteed obligations at December 31, 2002, was $458 million. Prior to the spin-off of AT&T Broadband, we had guaranteed various obligations of AT&T Broadband. In connection with the spin-off of AT&T Broadband, we continue to provide guarantees of these obligations, including operating leases for real estate, surety bonds, and equity hedges. These guarantees have expiration dates ranging from 2003 through 2007. Comcast has provided indemnifications for these guarantees of $458 million at December 31, 2002. Should the financial condition of AT&T Broadband and Comcast deteriorate to the point at which they are unable to meet their obligations, third party creditors could look to us for payment. We currently hold no collateral for these guarantees, and have not recorded corresponding obligations. At December 31, 2002, there were no quoted market prices for similar agreements.

The total notional amounts of software license indemnifications with a stated maximum liability, at December 31, 2002 and 2001, were approximately $50 million and $30 million, respectively. In addition, in a few instances, our liability is limited by the value of the licensing fees received or is not limited at all. Amounts related to these indemnifications cannot be estimated. The indemnifications generally have terms that coincide with the software license which may be until terminated by the licensee. Under the terms of these agreements, we indemnify licensees against damages, expenses and losses arising from third party claims and proceedings against trademark, copyright and/or patent infringement. We currently hold no collateral for these guarantees and have not recorded corresponding obligations. At December 31, 2002, there were no quoted market prices for similar agreements.

Interest Rate Swap Agreements

We enter into interest rate swaps to manage our exposure to changes in interest rates. We enter into swap agreements to manage the fixed/floating mix of our debt portfolio in order to reduce aggregate risk to interest rate movements. Interest rate swaps also allow us to raise funds at floating rates and effectively swap them into fixed rates that are generally lower than those available to us if fixed-rate borrowings were made directly. These agreements involve the exchange of floating-rate for fixed-rate payments or the exchange of fixed-rate for floating-rate payments without the exchange of the underlying principal amount. Floating-rate payments are tied to the LIBOR. We also designated certain interest-rate swaps as cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

The following table indicates the types of swaps in use at December 31, 2002 and 2001, the respective notional amounts and their weighted-average interest rates. Average floating rates are those in effect at the reporting date, and may change significantly over the lives of the contracts:

	At December 31, 2002	At December 31, 2001
	(Dollars in millions)	
Floating-rate to fixed-rate swaps — notional amount	$ 190	$ 218
Weighted-average receive rate	1.81%	2.08%
Weighted-average pay rate	7.30%	7.31%

In addition, we have combined interest rate, foreign currency swap agreements for foreign-currency-denominated debt, which hedge our risk to both interest rate and currency movements. At December 31, 2002 and 2001, the notional amounts related to these contracts was $3.8 billion, of which $3.1 billion was associated with our Euro bond offering in 2001.

The table below summarizes the fair and carrying values of the agreements. These swaps are valued using current market quotes, which were obtained from dealers.

	2002 Fair/Carrying Value		2001 Fair/Carrying Value	
	Asset	Liability	Asset	Liability
	(Dollars in millions)			
Interest rate swap agreements	$ —	$23	$—	$18
Combined interest rate foreign currency swap agreements	660	—	18	26

Foreign Exchange

We enter into foreign currency forward contracts to manage our exposure to changes in currency exchange rates related to foreign-currency-denominated transactions. Although we do not designate most of our foreign exchange contracts as accounting hedges, we have certain contracts that are designated as foreign currency cash flow hedges in accordance with SFAS No. 133. At December 31, 2002, our foreign exchange contracts consisted principally of Euros, Japanese yen, and Swiss francs. At December 31, 2001, our foreign exchange contracts consisted principally of Canadian dollars (which related to our obligation to purchase the remaining shares of AT&T Canada), Euros, Japanese yen, Swiss francs, and Brazilian reais. In addition, we are subject to foreign exchange risk related to other foreign-currency-denominated transactions. The notional amounts under contract at December 31, 2002 and 2001, were $742 million and $6.4 billion, respectively. The decrease from 200l was primarily due to approximately $5.3 billion in 2001 of foreign exchange contracts relating to a Euro Commercial Paper Program and our obligation to purchase the outstanding AT&T Canada shares we did not own. A significant portion of our debt under the Euro Commercial Paper Program was paid down in 2002, and our obligation to purchase the outstanding shares of AT&T Canada was satisfied in 2002. The following table summarizes the fair and carrying values of the foreign exchange contracts at December 31, 2002 and 2001. These foreign exchange contracts are valued using current market quotes which were obtained from independent sources.

	2002 Fair/Carrying Value		2001 Fair/Carrying Value	
	Asset	Liability	Asset	Liability
	(Dollars in millions)			
Foreign exchange contracts	$41	$2	$72	$299

Equity Option and Equity Swap Contracts

We enter into equity option and equity swap contracts, which are undesignated, to manage our exposure to changes in equity prices associated with various equity awards of previously affiliated companies (see note 12). The notional amounts outstanding on these contracts at December 31, 2002 and 2001, were $112 million and $19 million, respectively. The following table summarizes the carrying and fair values of these instruments at December 31, 2002 and 2001. Fair values are based on market quotes.

	2002		2001	
	Carrying/Fair Value		Carrying/Fair Value	
	Asset	Liability	Asset	Liability
	(Dollars in millions)			
Equity hedges	$—	$25	$—	$15

Warrants

We may obtain warrants to purchase equity securities in private and public companies as a result of certain transactions. Private warrants and public warrants that provide for net share settlement (i.e. allow for cashless exercise) are considered to be derivative instruments and recognized on our balance sheet at fair value (in accordance with SFAS No. 133). Warrants are not eligible to be designated as hedging instruments because there is no underlying exposure. Instead, these are effectively investments in private and public companies. The fair value of these warrants, as determined by using the Black-Scholes model, was $2 million and $24 million at December 31, 2002 and 2001, respectively.

Debt Securities

The carrying value of debt with an original maturity of less than one year approximates market value. The table below summarizes the carrying and fair values of long-term debt (including currently maturing long-term debt), excluding capital leases, at December 31, 2002 and 2001. The fair values of long-term debt were obtained based on quotes or rates available to us for debt with similar terms and maturities.

	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Dollars in millions)			
Long-term debt, excluding capital leases	$20,292	$21,030	$24,820	$24,704

Derivative Impacts

The following table summarizes the activity in "Accumulated other comprehensive loss" in Shareowners' equity related to derivatives designated as cash flow hedges during the periods January 1, 2001 (date of the company's adoption of SFAS No. 133) through December 31, 2002. Unrealized amounts recorded within

"Accumulated other comprehensive loss" prior to adoption of SFAS No. 133 were recognized in earnings in conjunction with the adoption of SFAS No. 133 ($1.6 billion pretax; $1.0 billion after-tax), (see note 3).

	Pretax	After-tax
	(Dollars in millions)	
Balance at January 1, 2001	$ —	$ —
Unrealized gains (losses)	(480)	(296)
Realized (gains) losses reclassified into earnings	85	52
Balance at December 31, 2001	$ (395)	$ (244)
Unrealized gains (losses)	1,747	1,078
Realized (gains) losses reclassified into earnings	(1,259)	(777)
Net amounts spun-off with AT&T Broadband	317	196
Balance at December 31, 2002	$ 410	$ 253

Included within the balance at December 31, 2002, were unrealized gains of $131 million pretax ($81 million after-tax) on embedded derivatives related to exchangeable notes that were indexed to AT&T Wireless common stock, which were settled in February 2003. The remaining balance of unrealized gains at December 31, 2002, was largely offset within "Accumulated other comprehensive loss" by unrealized losses on the underlying debt. Based upon the expiration or maturity dates of these remaining derivatives designated as cash flow hedges, we do not expect additional amounts to be transferred into earnings within the next year.

10. Equity Transactions

Pursuant to the AT&T Broadband and Comcast merger agreement, AT&T was required to redeem the outstanding TCI Pacific Communications, Inc. Class A Senior Cumulative Exchangeable Preferred Stock for AT&T common stock. Each share of TCI Pacific preferred stock was exchangeable at the option of the holder for 8.365 shares (1.673 adjusted for the 1-for-5 reverse stock split) of AT&T common stock. All outstanding shares (approximately 6.2 million) of TCI Pacific preferred stock with a carrying value of $2.1 billion at December 31, 2001 (included in Minority Interest of Discontinued Operations in the Consolidated Balance Sheet), were either exchanged or redeemed for approximately 51.8 million shares (10.4 million shares adjusted for the 1-for-5 reverse stock split) of AT&T common stock. No gain or loss was recorded on the exchange/redemption of the TCI Pacific preferred stock.

During 2002, AT&T issued 14.7 million shares (2.9 million shares adjusted for the 1-for-5 reverse stock split) of AT&T common stock to certain current and former senior managers in settlement of their deferred compensation accounts. Pursuant to AT&T's deferred compensation plan, senior managers may defer short- and long-term incentive compensation awards. The issuance of these shares resulted in an increase to total shareowners' equity of $196 million.

In June 2002, AT&T completed a public equity offering of 230 million shares (46 million shares adjusted for the 1-for-5 reverse stock split) of AT&T common stock for net proceeds of $2.5 billion. AT&T utilized the proceeds from the offering to satisfy a portion of its obligation to AT&T Canada common shareholders (see note 7).

On January 22, 2001, NTT DoCoMo invested approximately $9.8 billion for 812,512 shares of a new class of AT&T preferred stock with a par value of $1 per share. On July 9, 2001, in conjunction with the split-off of AT&T Wireless Group, these preferred shares were converted into AT&T Wireless common stock. During 2001, we recorded dividend requirements on this preferred stock of $652 million. The preferred stock dividend represented interest in connection with the DoCoMo preferred stock as well as accretion of the beneficial conversion feature associated with this preferred stock. The beneficial conversion feature was recorded upon the issuance of the preferred stock and represented the excess of the fair value of the preferred shares issued over the proceeds received.

11. Pension, Postretirement and Other Employee Benefit Plans

We sponsor noncontributory, defined benefit pension plans covering the majority of our employees. Pension benefits for management employees are based principally on career-average pay. Pension benefits for occupational employees are not directly related to pay. Pension trust contributions are made to trust funds held for the sole benefit of plan participants. Our benefit plans for current and certain future retirees include health-care benefits, life insurance coverage and telephone concessions.

The following table shows the components of the net periodic benefit (credit) costs for continuing operations included in our Consolidated Statements of Operations:

For the Years Ended December 31,	Pension Benefits 2002	Pension Benefits 2001	Pension Benefits 2000	Postretirement Benefits 2002	Postretirement Benefits 2001	Postretirement Benefits 2000
	(Dollars in millions)					
Service cost — benefits earned during the period	$ 209	$ 226	$ 239	$ 23	$ 26	$ 34
Interest cost on benefit obligations	1,002	938	983	365	344	351
Amortization of unrecognized prior service cost	152	172	174	12	4	4
Credit for expected return on plan assets	(1,526)	(1,647)	(1,812)	(187)	(201)	(230)
Amortization of transition asset	(34)	(89)	(156)	—	—	—
Amortization of (gains) losses	(22)	(182)	(332)	5	—	(16)
Charges for special termination (credits) benefits*	(19)	188	—	—	28	16
Net curtailment losses (gains)*	—	113	121	—	59	(14)
Net settlement losses*	6	4	8	—	—	—
Net periodic benefit (credit) cost	$ (232)	$ (277)	$ (775)	$ 218	$ 260	$ 145

* Primarily included in "Net restructuring and other charges" in the Consolidated Statements of Operations.

In connection with our restructuring plan announced in the fourth quarter of 2001, we recorded a $188 million charge related to management employee separation benefits expected to be funded by assets of the AT&T Management Pension Plan as well as a $28 million charge related to expanded eligibility for postretirement benefits for certain employees expected to exit under the plan. We also recorded pension and postretirement benefit curtailment charges of $172 million.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets, and a statement of the funded status:

For the Years Ended December 31,	Pension Benefits 2002	Pension Benefits 2001	Postretirement Benefits 2002	Postretirement Benefits 2001
	(Dollars in millions)			
Change in benefit obligations:				
Benefit obligation, beginning of year	$13,878	$12,898	$ 5,277	$ 4,851
Service cost	209	226	23	26
Interest cost	1,002	938	365	344
Plan amendments	34	62	14	—
Actuarial losses	1,134	655	640	373
Benefit payments	(1,221)	(1,072)	(480)	(406)
Special termination (credits) benefits	(19)	188	—	28
Settlements	(32)	(17)	—	—
Curtailment losses	—	—	—	61
Benefit obligation, end of year	$14,985	$13,878	$ 5,839	$ 5,277
Change in fair value of plan assets:				
Fair value of plan assets, beginning of year	$18,449	$21,055	$ 2,156	$ 2,521
Actual return on plan assets	(1,663)	(1,576)	(255)	(214)
Employer contributions	70	59	324	255
Benefit payments	(1,221)	(1,072)	(480)	(406)
Settlements	(32)	(17)	—	—
Fair value of plan assets, end of year	$15,603	$18,449	$ 1,745	$ 2,156
At December 31:				
Funded (unfunded) benefit obligation	$ 618	$ 4,571	$(4,094)	$(3,121)
Unrecognized net loss (gain)	1,715	(2,624)	1,684	606
Unrecognized transition asset	—	(34)	—	—
Unrecognized prior service cost (credits)	769	887	(10)	(12)
Net amount recorded	$ 3,102	$ 2,800	$(2,420)	$(2,527)

The AT&T Management Pension Plan had an unfunded accumulated benefit obligation of $1.1 billion as of December 31, 2002. The accumulated benefit obligation of $9.4 billion at December 31, 2002, was in excess of the fair value of the plan assets of $8.3 billion. Our nonqualified pension plans had an unfunded accumulated benefit obligation of $98 million and $113 million at December 31, 2002 and 2001, respectively.

The unfunded accumulated benefit obligation for the AT&T Management Pension Plan is attributed primarily to the loss in value of the plan assets and the impact of the decline in the discount rate used to value the pension benefit obligations. As a result, due to the under-funded status of these plans, in 2002, the Company recorded an additional minimum pension liability of $699 million. The offset to this liability was an intangible asset of $410 million and a charge to "Other comprehensive income (loss)" of $289 million ($179 million, net of tax).

Our postretirement welfare benefit plans and telephone concession benefit plans had accumulated postretirement benefit obligations of $5.9 billion at December 31, 2002, which was in excess of plan assets of

$1.7 billion. Our postretirement welfare benefit plans and telephone concession benefit plans had accumulated postretirement benefit obligations of $5.3 billion at December 31, 2001, which was in excess of plan assets of $2.2 billion.

At December 31, 2002 and 2001, our pension plan assets included $13 million and $31 million of AT&T common stock, respectively.

The following table provides the amounts recorded in our Consolidated Balance Sheets:

	Pension Benefits		Postretirement Benefits	
At December 31,	2002	2001	2002	2001
	(Dollars in millions)			
Prepaid pension cost	$ 3,596	$3,329	$ —	$ —
Benefit related liabilities	(1,255)	(591)	(2,420)	(2,527)
Intangible asset (in "Other assets")	456	46	—	—
Accumulated other comprehensive income	305	16	—	—
Net amount recorded	$ 3,102	$2,800	$(2,420)	$(2,527)

The assumptions in the following table were used in the measurement of the pension and postretirement benefit obligations and the net periodic benefit costs, as applicable. These assumptions were reassessed as of December 31, 2002. The discount rate was reduced to 6.5% based on current yields on high quality corporate fixed-income investments with maturities corresponding to the expected duration of the benefit obligations. The expected long-term rate of return on plan assets was adjusted downward to 8.5% effective January 1, 2003, primarily in consideration of the current and projected investment portfolio mix and estimated long-term investment returns for each asset class. Additionally, the rate of projected compensation increases was reduced to 4.25% reflecting expected inflation levels, our actual recent experience and future outlook. Our previous years' disclosed compensation rates have been restated to include the component of the assumed compensation rate increase attributable to employee promotion.

	Weighted-Average Assumptions		
At December 31,	2002	2001	2000
Discount rate	6.50%	7.25%	7.50%
Expected return on plan assets	9.0%	9.5%	9.5%
Rate of compensation increase	4.25%	5.9%	5.9%

We assumed a rate of increase in the per capita cost of covered health-care benefits (the health-care cost trend rate) of 10.9%. This rate was assumed to gradually decline after 2002 to 5.0% by 2010 and then remain level. Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage point increase or decrease in the assumed health-care cost trend rate would increase or decrease the total of the service and interest-cost components of net periodic postretirement health-care benefit cost by $11 million and $10 million, respectively, and would increase or decrease the health-care component of the accumulated postretirement benefit obligation by $175 million and $152 million, respectively.

We also sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Contributions relating to continuing operations amounted to $135 million in 2002, $131 million in 2001, and $206 million in 2000.

12. Stock-Based Compensation Plans

Under the 1997 Long-term Incentive Program (Program), which was effective June 1, 1997, and amended on May 19, 1999, and March 14, 2000, we grant stock options, performance shares, restricted stock and other awards on AT&T common stock, and also granted stock options on AT&T Wireless Group tracking stock prior to the split-off of AT&T Wireless.

Under the initial terms of the Program, there were 30 million shares of AT&T common stock available for grant with a maximum of 4.5 million common shares that could be used for awards other than stock options. Subsequent to the 1999 modification, beginning with January 1, 2000, the remaining shares available for grant at December 31 of the prior year, plus 1.75% of the shares of AT&T common stock outstanding on January 1 of each year, become available for grant. Under the amended terms, a maximum of 7.5 million shares may be used for awards other than stock options. In 2001, as a result of the AT&T Wireless split-off, the number of shares available for grant increased by 3.5 million which includes 0.6 million for awards other than stock options. In 2002, AT&T restructured stock options and other stock-based awards in conjunction with the AT&T Broadband spin-off. The number of shares available for grant increased by 44.5 million which includes 0.8 million for awards other than stock options. The exercise price of any stock option is equal to the stock price when the option is granted. Generally, the options vest over three or four years and are exercisable up to 10 years from the date of grant. (All above share amounts have been adjusted for the 1-for-5 reverse stock split.)

Under the Program, performance share units are awarded to key employees in the form of either common stock or cash at the end of a three-year period, based on certain financial-performance targets.

On April 27, 2000, AT&T created a new class of stock and completed an offering of AT&T Wireless Group tracking stock. Under the Program, AT&T issued AT&T Wireless Group stock options to employees. The exercise price of any stock option was equal to the stock price when the option was granted. When granted, the options had a two to three and one-half year vesting period, and were exercisable up to 10 years from the date of grant. On April 27, 2000, substantially all employees were granted AT&T Wireless Group tracking stock options.

In connection with the July 9, 2001 split-off of AT&T Wireless Group, all outstanding AT&T Wireless Group tracking stock options and all AT&T common stock options granted prior to January 1, 2001, were converted in the same manner as common shares (see note 1). AT&T modified the terms and conditions of all outstanding stock option grants to allow the AT&T Wireless common stock options held by AT&T employees to immediately vest and become exercisable for their remaining contractual term and to also allow the AT&T common stock options held by AT&T Wireless employees to immediately vest and become exercisable for their remaining contractual term. In 2001, AT&T recognized $3 million of compensation expense related to these modifications.

In connection with the spin-off of AT&T Broadband, all outstanding AT&T stock options held by active AT&T employees were restructured into an adjusted number of AT&T options. All outstanding AT&T stock options held by active AT&T Broadband employees were restructured into an adjusted number of AT&T Broadband options and subsequently replaced with new Comcast stock options, and all AT&T stock options held by inactive employees at the time of the spin-off were converted into adjusted AT&T stock options and new Comcast stock options. In January 2002, AT&T modified the terms and conditions of outstanding AT&T stock options and other equity awards granted under plans other than the Program and held by AT&T Broadband employees. This modification provided that upon the change in control of AT&T Broadband, their stock options and other equity awards granted prior to December 19, 2001, would be immediately vested and exercisable through their remaining contractual term. In 2002, $48 million (pretax) of compensation expense related to this modification was recognized by AT&T Broadband and is included within "Gain on disposition of discontinued operations."

Under the AT&T 1996 Employee Stock Purchase Plan (Plan), which was effective July 1, 1996, and amended on May 23, 2001, we are authorized to sell up to 21 million shares of AT&T common stock to our eligible employees through June 30, 2006. Under the terms of the Plan, employees may have up to 10% of their earnings withheld to purchase AT&T's common stock. The purchase price of the stock on the date of exercise is 85% of the average high and low sale prices of shares on the New York Stock Exchange for that day. Under the Plan, we sold approximately 1.3 million, 1.2 million and 1.1 million shares to employees in 2002, 2001 and 2000, respectively. (All above share amounts have been adjusted for the 1-for-5 reverse stock split.)

A summary of the AT&T common stock option transactions is shown below. (All share and per share amounts have been restated to reflect the 1-for-5 reverse stock split.)

	2002	Weighted-Average Exercise Price*	2001	Weighted-Average Exercise Price*	2000	Weighted-Average Exercise Price*
			(Shares in thousands)			
Outstanding at January 1,	63,509	$122.90	49,805	$179.10	33,753	$187.10
Options assumed in mergers					5,923	123.55
Options granted	15,183	68.84	13,680	110.85	14,914	180.60
AT&T Wireless split-off adjustments			4,330			
AT&T Broadband spin-off adjustments	37,049					
Options and SARs exercised	(436)	32.28	(1,044)	58.15	(2,290)	110.35
Options canceled or forfeited	(17,048)	125.72	(3,262)	155.35	(2,495)	228.05
At December 31:						
Options outstanding	98,257	40.64	63,509	122.90	49,805	179.10
Options exercisable	46,770	49.88	34,289	130.25	26,290	152.20
Shares available for grant	27,751		6,944		6,841	

* The weighted-average exercise prices for the period prior to the AT&T Wireless split-off in 2001, and for the year ended December 31, 2000, have not been adjusted to reflect the impact of the split-off. The weighted-average exercise prices for the period prior to the AT&T Broadband spin-off in 2002, and for the years ended December 31, 2001 and 2000, have not been adjusted to reflect the impact of the spin-off.

The following table summarizes information about the AT&T common stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2002 (In thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2002 (In thousands)	Weighted-Average Exercise Price
$ 3.93 – $23.70	3,368	5.6	$16.76	2,316	$14.57
$23.88	10,417	9.7	$23.88	8	$23.88
$23.94 – $28.00	1,166	8.5	$25.75	406	$25.59
$28.03	21,465	9.1	$28.03	422	$28.03
$28.23 – $33.66	9,148	8.2	$32.15	3,716	$32.04
$33.68	8,341	8.2	$33.68	2,823	$33.68
$33.77 – $38.27	8,206	4.6	$35.68	7,172	$35.68
$38.31	3,657	4.1	$38.31	3,657	$38.31
$38.48 – $46.73	4,050	4.6	$44.35	3,459	$44.21
$46.91	5,553	7.6	$46.91	3,113	$46.91
$47.04 – $61.54	8,609	5.5	$59.06	8,506	$59.15
$61.66 – $87.01	9,136	6.9	$71.10	7,146	$71.71
$87.51 – $90.80	5,141	6.1	$87.52	4,026	$87.52
	98,257	7.4	$40.64	46,770	$49.88

A summary of the AT&T Wireless Group tracking stock option transactions is shown below:

	2001	Weighted-Average Exercise Price	2000	Weighted-Average Exercise Price
	(Shares in thousands)			
Outstanding at January 1:	73,626	$29.29	—	$ —
Options granted	4,037	$22.57	76,983	$29.29
Options exercised	(1)	$22.03	—	$ —
Options canceled or forfeited	(2,711)	$29.11	(3,357)	$29.43
Options assumed by AT&T Wireless on July 9th	(74,951)			
At December 31:				
Options outstanding	—	$ —	73,626	$29.29
Options exercisable	—	$ —	12,391	$29.48
Shares available for grant	—		41,874	

In 2002, AT&T offered employees the option to cancel certain outstanding stock option grants and replace them with restricted stock units. Approximately 15 million stock options were canceled as a result of this offer, and 2.5 million restricted stock units were granted which vest over a three-year period. The 2.5 million restricted stock units were restructured into 6.5 million units as a result of the spin-off of AT&T Broadband. Those options that were eligible for cancelation but retained by the employee became variable awards and will be marked to market until the options are exercised, forfeited, or expired unexercised. The cancelation of stock options had an immaterial impact on 2002 results of operations.

The weighted-average fair values at date of grant for AT&T common stock options granted during 2002, 2001 and 2000 were $24.49, $39.50 and $60.50, respectively, and were estimated using the Black-Scholes option-pricing model. The weighted-average risk-free interest rates applied for 2002, 2001 and 2000 were 3.73%, 4.61% and 6.29%, respectively. The following assumptions were applied for 2002, 2001 and 2000, respectively: (i) expected dividend yields of 1.17%, 0.85% and 1.6%, (ii) expected volatility rates of 40.0%, 36.9% and 33.5% and (iii) expected lives of 4.7 years in 2002, 2001 and 2000.

The weighted-average fair values at date of grant for AT&T Wireless Group tracking stock options granted during 2001 and 2000 were $11.58 and $14.20, respectively, and were estimated using the Black-Scholes option-pricing model. The following weighted-average assumptions were applied for 2001 and 2000, respectively: (i) risk-free rate of 4.92% and 6.53%, (ii) expected volatility rate of 55.0% in 2001 and 2000 and (iii) expected lives of 4.8 years and 3.9 years.

Effective January 1, 2003, AT&T will begin recording compensation expense pursuant to SFAS No. 123, "Accounting for Stock Based Compensation," for AT&T common stock options issued subsequent to January 1, 2003. The fair value of these stock options will be measured on the grant date and recognized in the income statement over the vesting period. (For additional information, see note 2.)

13. Income Taxes

The following table shows the principal reasons for the difference between the effective income tax rate and the U.S. federal statutory income tax rate:

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
U.S. federal statutory income tax rate	35%	35%	35%
Federal income tax (provision) at statutory rate	$ (993)	$(2,683)	$(4,368)
Amortization of investment tax credits	16	18	23
State and local income tax (provision), net of federal income tax effect	(222)	(209)	(292)
AT&T Latin America charge	(360)	—	—
Foreign operations, net of tax credits	(140)	(107)	(20)
Investment dispositions, acquisitions and legal entity restructurings	93	91	70
Research and other credits	51	42	36
Other differences, net	(32)	(42)	64
(Provision) for income taxes	$(1,587)	$(2,890)	$(4,487)
Effective income tax rate	56.0%	37.7%	35.9%

The U.S. and foreign components of income from continuing operations before income taxes and the (provision) for income taxes are presented in the following table:

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Income From Continuing Operations Before Income Taxes			
United States	$ 2,924	$ 7,671	$12,727
Foreign	(88)	(5)	(247)
Total	$ 2,836	$ 7,666	$12,480
(Provision) For Income Taxes			
Current:			
Federal	$ 1,041	$(1,554)	(3,126)
State and local	19	(192)	(416)
Foreign	(95)	(98)	(87)
	965	(1,844)	(3,629)
Deferred:			
Federal	(2,201)	(936)	(851)
State and local	(360)	(129)	(34)
Foreign	(7)	1	4
	(2,568)	(1,064)	(881)
Deferred investment tax credits	16	18	23
(Provision) for income taxes	$(1,587)	$(2,890)	$(4,487)

We also recorded current and deferred income tax benefits that resulted from net losses (earnings) related to other equity investments in the amounts of $112 million in 2002, $2.9 billion in 2001, and $59 million in 2000.

Deferred income tax liabilities are taxes we expect to pay in future periods. Similarly, deferred income tax assets are recorded for expected reductions in taxes payable in future periods. Deferred income taxes arise because of differences in the book and tax basis of certain assets and liabilities.

Deferred income tax liabilities and assets consist of the following:

	At December 31, 2002	At December 31, 2001
	(Dollars in millions)	
Deferred Income Tax Assets		
Reserves and allowances	$ 845	$2,237
Employee pensions and other benefits	604	843
Business restructuring	297	359
Investments	281	423
Net operating loss, capital loss and credit carryforwards	252	70
Advance payments	174	30
Other deferred tax assets	162	419
Valuation allowance	(689)	(34)
Total deferred income tax assets	1,926	4,347
Deferred Income Tax Liabilities		
Property, plant and equipment	3,135	3,230
Leveraged and capital leases	1,059	1,078
Capitalized software and intangible assets	743	575
Other	818	710
Total deferred income tax liabilities	5,755	5,593
Net deferred income tax liability	$3,829	$1,246

The net increase in the valuation allowance in 2002 of $655 million was primarily attributable to the book and tax basis difference relating to our investment in AT&T Latin America.

At December 31, 2002, the tax effect of net operating and capital loss carryforwards for federal and state income tax purposes were $10 million and $130 million, respectively, which expire through 2021. In addition, at December 31, 2002, federal tax credit carryforwards were $1 million, with no expiration date, and state tax credit carry-forwards were $111 million expiring through 2016.

14. Commitments and Contingencies

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

In connection with the separation of its former subsidiaries, AT&T has entered into a number of separation and distribution agreements that provide, among other things, for the allocation and/or sharing of certain costs associated with potential litigation liabilities. For example, pursuant to these agreements, AT&T shares in the cost of certain litigation (relating to matters while affiliated with AT&T) if the settlement exceeds certain thresholds. With the exception of the Sparks matter (see note 1), as of December 31, 2002, we have assessed that none of the litigation liabilities allocated to former subsidiaries were probable of incurring costs in excess of the threshold above which we would be required to share in the costs. However, in the event these former subsidiaries were unable to meet their obligations with respect to these liabilities due to financial difficulties, AT&T could be held responsible for all or a portion of the costs, irrespective of the sharing agreements.

Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2002. However, we believe that after final disposition, any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual consolidated financial statements.

Leases and Other Commitments

From time to time, AT&T provides guarantees of debt or other obligations relating to former subsidiaries. (Guarantees are occasionally provided for subsidiaries when owned by AT&T or in connection with its separation from AT&T. See note 9 for a detailed discussion of these guarantees.)

We lease land, buildings and equipment through contracts that expire in various years through 2040. Our rental expense under operating leases was $529 million in 2002, $552 million in 2001 and $583 million in 2000. The total of minimum rentals to be received in the future under non-cancelable operating subleases as of December 31, 2002, was $250 million.

The following table shows our future minimum commitments due under non-cancelable operating and capital leases at December 31, 2002:

	Operating Leases	Capital Leases
	(Dollars in millions)	
2003	$ 480	$ 10
2004	409	19
2005	320	8
2006	252	8
2007	203	8
Later years	460	100
Total minimum lease payments	$2,124	153
Less: Amount representing interest		52
Present value of net minimum lease payments		$101

In addition, under certain real estate operating leases, we could be required to make payments to the lessor of up to $447 million at the end of the lease term (ending in years 2004 through 2007). The actual amount paid, if any, would be reduced by amounts received by the lessor upon remarketing of the property. (See note 18 for a discussion of the possible consolidation of certain of entities that we lease facilities from.)

AT&T has contractual obligations to utilize network facilities from local exchange carriers with terms greater than one year. Since the contracts have no minimum volume requirement and are based on an interrelationship of volumes and discounted rates, we assessed our minimum exposure based on penalties to exit the contracts on December 31 of each year. At December 31, 2002, the penalties AT&T would incur if we exited all of these contracts would be $2.1 billion.

15. Segment Reporting

AT&T's results are segmented according to the customers we service: AT&T Business Services and AT&T Consumer Services.

AT&T Business Services provides a variety of services to various sized businesses and government agencies including long distance, international, toll-free and local voice, data and Internet protocol (IP) services; managed services; and wholesale transport services.

AT&T Consumer Services provides a variety of communications services to residential customers, including domestic and international long distance, transaction-based long distance, such as operator-assisted service and prepaid phone cards; local and local toll (intrastate calls outside the immediate local area); and dial-up Internet.

The balance of AT&T's continuing operations (excluding LMG) is included in a "Corporate and Other" group. This group primarily reflects corporate staff functions and the elimination of transactions between segments. LMG was not an operating segment of AT&T prior to its split-off from AT&T because AT&T did not have a controlling financial interest in LMG for financial accounting purposes. Therefore, we accounted for this investment under the equity method. Additionally, LMG's results were not reviewed by the chief operating decision-makers for purposes of determining resources to be allocated.

Total assets for our reportable segments include all assets, except intercompany receivables. AT&T prepaid pension assets and corporate-owned or leased real estate are held at the corporate level and therefore are included in the Corporate and Other group. In addition, as the assets of discontinued operations are not considered to be a part of AT&T's ongoing operations, they are included in a category separate from reportable segments and the Corporate and Other group for reporting purposes. Capital additions for each segment include capital expenditures for property, plant and equipment, additions to nonconsolidated investments, and additions to internal-use software (which are included in "Other assets").

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see note 2). AT&T evaluates performance based on several factors, of which the primary financial measure is earnings before interest and taxes, including pretax minority interest and net pretax losses from other equity investments (EBIT).

Generally, AT&T accounts for inter-segment transactions at market prices. AT&T Business Services sells services to AT&T Consumer Services at cost-based prices, which approximate market prices. Generally AT&T Business Services accounts for these sales as contra-expense.

Revenue	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
AT&T Business Services external revenue	$26,235	$27,264	$28,136
AT&T Business Services internal revenue	323	441	423
Total AT&T Business Services revenue	26,558	27,705	28,559
AT&T Consumer Services external revenue	11,527	14,843	18,643
Total reportable segments	38,085	42,548	47,202
Corporate and Other	(258)	(351)	(352)
Total revenue	$37,827	$42,197	$46,850

Depreciation and Amortization	For the Years Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
AT&T Business Services	$4,546	$4,234	$4,255
AT&T Consumer Services	230	200	167
Total reportable segments	4,776	4,434	4,422
Corporate and Other	112	125	116
Total depreciation and amortization	$4,888	$4,559	$4,538

Net (Losses) Earnings Related to Other Equity Investments	For the Years Ended December 31, 2002	2001	2000
	(Dollars in millions)		
AT&T Business Services pretax net (losses)	$(454)	$(6,482)	$ (8)
Corporate and Other pretax net (losses)	(58)	(1,301)	(43)
Total pretax (losses)	(512)	(7,783)	(51)
Total tax benefit	112	2,947	61
Total net (losses) earnings related to other equity investments	$(400)	$(4,836)	$ 10

Reconciliation of EBIT to Income from Continuing Operations Before Income Taxes, Minority Interest Income and Losses Related to Other Equity Investments	For the Years Ended December 31, 2002	2001	2000
	(Dollars in millions)		
AT&T Business Services EBIT	$ 1,638	$(2,305)	$ 5,917
AT&T Consumer Services EBIT	2,647	4,875	6,893
Total reportable segments EBIT	4,285	2,570	12,810
Corporate and Other EBIT	(399)	(1,063)	1,163
Total EBIT	3,886	1,507	13,973
Deduct:			
Minority interest income	114	131	41
Pretax net (losses) related to other equity investments	(512)	(7,783)	(51)
Add: Interest (expense)	(1,448)	(1,493)	(1,503)
Income from continuing operations before income taxes, minority interest income and losses related to other equity investments	$ 2,836	$ 7,666	$12,480

Assets	At December 31, 2002	2001
	(Dollars in millions)	
AT&T Business Services	$36,365	$ 40,316
AT&T Consumer Services	1,674	2,141
Total reportable segments	38,039	42,457
Corporate and Other assets(1)	17,233	19,872
Total assets from discontinued operations	—	103,152
Total Assets	$55,272	$165,481

(1) Includes cash of $7.8 billion for 2002 and $10.4 billion for 2001

Capital Additions

	For the Years Ended December 31, 2002	2001	2000
	(Dollars in millions)		
AT&T Business Services	$3,716	$5,451	$6,841
AT&T Consumer Services	127	140	148
Total reportable segments	3,843	5,591	6,989
Corporate and Other	63	150	1,594
Total capital additions	$3,906	$5,741	$8,583

Geographic information is not presented due to the immateriality of revenue attributable to international customers.

Reflecting the dynamics of our business, we continually review our management model and structure, which may result in additional adjustment to our operating segments in the future.

16. Related Party Transactions

AT&T had various related party transactions with Concert until the joint venture was officially unwound on April 1, 2002.

Included in "Revenue" was $268 million, $1.1 billion and $1.1 billion for services provided to Concert for the years ended December 31, 2002, 2001 and 2000, respectively.

Included in "Access and other connection" are charges from Concert representing costs incurred on our behalf to connect calls made to foreign countries (international settlements) and costs paid by AT&T to Concert for distributing Concert products totaling $491 million, $2.1 billion and $2.4 billion for the years ended December 31, 2002, 2001 and 2000, respectively.

The Consolidated Balance Sheet at December 31, 2001, included a loan of $1.0 billion to Concert, which was included within "Other assets." Interest income of $67 million was recognized for the year ended December 31, 2000. In the third quarter of 2001, this loan together with the associated accrued interest was written off in connection with the decision to unwind Concert (see note 7).

At December 31, 2001, AT&T had a floating-rate loan payable to Concert in the amount of $80 million. The loan was included in "Debt maturing within one year" at December 31, 2001. This loan was paid off in conjunction with the unwind of Concert. Interest expense was $5 million and $6 million for the years ended December 31, 2001 and 2000, respectively.

Included in "Accounts receivable" at December 31, 2001, was $438 million related to telecommunications transactions with Concert. Included in "Accounts payable" at December 31, 2001, was $201 million related to transactions with Concert.

Included in "Other receivables" at December 31, 2001, was $781 million related to administrative transactions performed on behalf of Concert. Included in "Other current liabilities" at December 31, 2001, was $935 million related to administrative transactions performed by Concert on behalf of AT&T.

We had various related party transactions with LMG. Included in "Costs of services and products" were programming expenses related to services from LMG. These expenses amounted to $199 million for the seven months ended July 31, 2001, the effective split-off date of LMG for accounting purposes, and $239 million for the year ended December 31, 2000.

17. Quarterly Information (Unaudited)

2002	First	Second(1)	Third	Fourth(2)
	(Dollars in millions, except per share amounts)			
Revenue	$ 9,548	$ 9,580	$ 9,409	$ 9,290
Operating income (loss)	1,634	1,592	1,415	(280)
Income (loss) from continuing operations	446	603	525	(611)
Net (loss) from discontinued operations (net of income taxes)	(565)	(13,433)	(318)	(197)
Gain on disposition of discontinued operations (net of income taxes)	—	—	—	1,324
(Loss) income before cumulative effect of accounting change	(119)	(12,830)	207	516
Cumulative effect of accounting change (net of income taxes)	(856)	—	—	—
Net (loss) income	(975)	(12,830)	207	516
AT&T Common Stock Group:(3)				
Earnings (loss) per share — basic:				
Earnings (loss) from continuing operations	$ 0.63	$ 0.83	$ 0.68	$ (0.79)
(Loss) from discontinued operations	(0.80)	(18.41)	(0.41)	(0.26)
Gain on disposition of discontinued operations	—	—	—	1.71
Cumulative effect of accounting change	(1.21)	—	—	—
AT&T Common Stock Group (loss) earnings	$ (1.38)	$ (17.58)	$ 0.27	$ 0.66
Earnings (loss) per share — diluted:				
Earnings (loss) from continuing operations	$ 0.60	$ 0.80	$ 0.67	$ (0.79)
(Loss) from discontinued operations	(0.76)	(17.91)	(0.41)	(0.26)
Gain on disposition of discontinued operations	—	—	—	1.71
Cumulative effect of accounting change	(1.16)	—	—	—
AT&T Common Stock Group (loss) earnings	$ (1.32)	$ (17.11)	$ 0.26	$ 0.66
Dividends declared	0.1875	0.1875	0.1875	0.1875
AT&T common stock				
High	$ 39.47	$ 32.50	$ 26.35	$ 29.42
Low	27.62	18.64	16.81	21.43
Quarter-end close	32.19	21.94	24.62	26.11

2001	First	Second	Third[4]	Fourth
	(Dollars in millions, except per share amounts)			
Revenue	$10,890	$10,602	$10,537	$10,168
Operating income	2,451	2,265	2,313	803
Income (loss) from continuing operations	556	(1,433)	(1,547)	(216)
Net (loss) from discontinued operations (net of income taxes)	(1,804)	(525)	(548)	(1,175)
Gain on disposition of discontinued operations (net of income taxes)	—	—	13,503	—
Net (loss) income before cumulative effect of accounting change	(1,248)	(1,958)	11,408	(1,391)
Cumulative effect of accounting change (net of income taxes)	904	—	—	—
Net (loss) income[5]	(344)	(1,958)	11,408	(1,391)
AT&T Common Stock Group:[3]				
Earnings (loss) per share — basic:				
Earnings (loss) from continuing operations	$ 1.41	$ 0.51	$ (2.68)	$ (0.31)
(Loss) from discontinued operations	(2.36)	(0.77)	(0.77)	(1.66)
Gain on disposition of discontinued operations	—	—	19.10	—
Cumulative effect of accounting change	0.47	—	—	—
AT&T Common Stock Group (loss) earnings	$ (0.48)	$ (0.26)	$ 15.65	$ (1.97)
Earnings (loss) per share — diluted:				
Earnings (loss) from continuing operations	$ 1.32	$ 0.48	$ (2.68)	$ (0.31)
(Loss) from discontinued operations	(2.21)	(0.72)	(0.77)	(1.66)
Gain on disposition of discontinued operations	—	—	19.10	—
Cumulative effect of accounting change	0.44	—	—	—
AT&T Common Stock Group (loss) earnings	$ (0.45)	$ (0.24)	$ 15.65	$ (1.97)
Dividends declared	0.1875	0.1875	0.1875	0.1875
AT&T Wireless Group (loss) earnings from discontinued operations per basic and diluted share[3],[6]	$ (0.02)	$ 0.08	—	—
Liberty Media Group (loss) earnings per basic and diluted share[7]	$ (0.06)	$ (0.82)	$ 0.04	—
Stock price[8]				
AT&T common stock				
High	$ 40.00	$ 37.05	$ 44.00	$ 41.01
Low	27.67	31.56	33.85	30.24
Quarter-end close	33.92	35.03	39.57	37.19
AT&T Wireless Group common stock[6]				
High	$ 27.30	$ 21.10	$ 19.92	—
Low	17.06	15.29	12.52	—
Quarter-end close	19.18	16.35	—	—
Liberty Media Group Class A common stock[7]				
High	$ 17.25	$ 18.04	$ 17.85	—
Low	11.88	11.50	14.50	—
Quarter-end close	14.00	17.49	—	—

2001	First	Second	Third[(4)]	Fourth
	(Dollars in millions, except per share amounts)			
Liberty Media Group Class B common stock[(7)]				
High	$ 18.69	$ 18.75	$ 18.35	—
Low	14.20	12.50	12.00	—
Quarter-end close	15.00	18.15	—	—

(1) The loss from discontinued operations in the second quarter of 2002 included impairment charges of $16.5 billion ($11.8 billion after-tax) of goodwill and franchise costs.

(2) Fourth quarter 2002 net income included $1,463 of net restructuring and other charges.

(3) Earnings per share (EPS) in each quarter is computed using the weighted-average number of shares outstanding during the quarter while EPS for the full year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the four quarters' EPS does not always equal the full-year EPS.

(4) Third quarter 2001 net income included a gain on disposition of discontinued operations of $13,503, or $19.10 per share.

(5) First quarter 2001 net income included cumulative effect of accounting change of $359 and $545, or $0.44 per diluted share and $0.21 per share, for AT&T Common Stock Group and LMG, respectively, due to the adoption of SFAS No. 133.

(6) No dividends had been declared on AT&T Wireless Group common stock. AT&T Wireless Group was split-off from AT&T on July 9, 2001.

(7) No dividend had been declared on LMG common stock. LMG was split-off from AT&T on August 10, 2001.

(8) Stock prices obtained from the New York Stock Exchange Composite Tape. AT&T Common Stock prices have been restated to reflect the spin-off of AT&T Broadband and for the 1-for-5 reverse stock split.

18. Variable Interest Entities

As stated in note 19, AT&T is currently assessing the potential impacts of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." As part of that assessment, we have determined that one entity, from which we currently lease two buildings, may be determined to be a Variable Interest Entity and subject to consolidation. We have no ownership interest in this entity and our transactions with it have met the requirements to be classified as operating leases, with AT&T being the lessee. At the end of their respective lease terms (including any extensions), AT&T has the option to: renew the lease for a new term, purchase the property at the unamortized loan funding amount, or exercise the remarketing option. Under the remarketing option, AT&T could be held liable for a loss in value relative to the properties. At December 31, 2002, our maximum exposure was $99 million. This entity has approximately $105 million of total assets, (principally the leased properties) and $110 million of liabilities (principally long term debt secured by the properties).

In addition, we have six leases with another entity, having characteristics similar to those described above. It is possible that this entity may be deemed to be a VIE. We may, therefore, have variable interests in specified assets of this entity and be subject to "silo" consolidation of the specific assets and related liabilities. At December 31, 2002, our maximum total exposure related to this entity was $328 million. The estimated building value is approximately $362 million and the outstanding long-term debt is approximately $386 million.

19. New Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard requires that obligations that are legally enforceable and unavoidable, and are associated with the retirement of tangible long-lived assets, be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The offset to the initial asset retirement obligation is an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its future value, and the asset is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS

No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. For AT&T, this means that the standard was adopted on January 1, 2003. AT&T currently includes in its group depreciation rates an amount related to the cost of removal for certain assets. However, such amounts are not legally enforceable or unavoidable; therefore, AT&T will be required to reverse the amount accrued in accumulated depreciation. As of January 1, 2003, AT&T will report approximately $40 million as the cumulative effect of a change in accounting principles related to this reversal. The impact of no longer including the cost of removal in the group depreciation rates, coupled with the cumulative effect impact on accumulated depreciation, will result in a decrease to depreciation expense in 2003. However, the costs incurred to remove these assets will be reflected as a cost in the period incurred as "Costs of services and products."

On June 28, 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities." This statement addresses the recognition, measurement and reporting of costs that are associated with exit and disposal activities. This statement includes the restructuring activities that are currently accounted for pursuant to the guidance set forth in EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," costs related to terminating a contract that is not a capital lease and one-time benefit arrangements received by employees who are involuntarily terminated -nullifying the guidance under EITF 94-3. Under SFAS No. 146 the cost associated with an exit or disposal activity is recognized in the periods in which it is incurred rather than at the date the company committed to the exit plan. This statement is effective for exit or disposal activities initiated after December 31, 2002, with earlier application encouraged. Previously issued financial statements will not be restated. The provisions of EITF 94-3 shall continue to apply for exit plans initiated prior to the adoption of SFAS No. 146. Accordingly, the initial adoption of SFAS No. 146 will not have an effect on AT&T's results of operations, financial position or cash flows. Liabilities associated with future exit and disposal activities will not be recognized until actually incurred.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." This standard provides alternate methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation and requires more prominent disclosure about the method used. This statement is effective for fiscal years ending after December 15, 2002. For AT&T, this means it is effective for December 31, 2002. Currently AT&T applies the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and we do not expense our stock options. However, as previously announced, AT&T will begin expensing all stock options issued after January 1, 2003, and will continue to apply the disclosure-only provisions to stock options issued prior to January 1, 2003. This method of transition is in compliance with the provisions of SFAS No. 148. The adoption of the disclosure provisions of SFAS No. 148 will not have an impact on AT&T's results of operations, financial position or cash flows; however, the expensing of the stock options issued after January 1, 2003, will have a negative impact on our results of operations.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that an entity issuing a guarantee (including those embedded in a purchase or sales agreement) must recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. FIN 45 also requires detailed information about each guarantee or group of guarantees even if the likelihood of making a payment is remote. The disclosure requirements of this interpretation are effective for financial statements of periods ending after December 15, 2002, which makes them effective for AT&T for December 31, 2002 (see note 9 for the disclosures required under this interpretation). The recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. FIN 45 could have an impact on the future results of AT&T depending on guarantees issued; however, at this time we do not believe that the adoption of this statement will have a material impact on our results of operation, financial position or cash flows.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities — an Interpretation of Accounting Research Bulletin (ARB) No. 51." FIN 46 requires the primary beneficiary to consolidate a variable interest entity (VIE) if it has a variable interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. FIN 46 applies immediately to VIEs created after January 31, 2003, and to VIEs in which the entity obtains an interest after that date. For VIEs acquired before February 1, 2003, the effective date for AT&T is July 1, 2003. AT&T is currently in the process of determining the impact of this statement on its results of operations, financial position and cash flows. The disclosures relating to our present involvement with VIEs and our maximum exposure to losses are included in note 18.

In November 2002, the EITF reached a consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables," related to the timing of revenue recognition for arrangements in which goods or services or both are delivered separately in a bundled sales arrangement. The EITF requires that when the deliverables included in this type of arrangement meet certain criteria they should be accounted for separately as separate units of accounting. This may result in a difference in the timing of revenue recognition but will not result in a change in the total amount of revenue recognized in a bundled sales arrangement. The allocation of revenue to the separate deliverables is based on the relative fair value of each item. If the fair value is not available for the delivered items then the residual method must be used. This method requires that the amount allocated to the undelivered items in the arrangement is their full fair value. This would result in the discount, if any, being allocated to the delivered items. This consensus is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003, which, for AT&T, is July 1, 2003. AT&T is currently evaluating the impact of this consensus on its results of operations, financial position and cash flows.

In January 2003, the EITF reached a consensus on EITF 02-18, "Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition." This consensus states that if the additional investment, in whole or in part, represents the funding of prior losses, the investor should recognize previously suspended losses. This determination would be based on various factors including whether the investment results in an increased ownership percentage, the fair value of the consideration received is equivalent to the consideration paid and whether the investment is acquired from a third party or directly from an investee. If any of these provisions are met, the additional investment would generally not be considered as funding prior losses. When appropriate to recognize prior losses, the amount recognized would be limited to the amount of the additional investment determined to represent the funding of prior losses. The consensus will be effective for additional investments made after February 5, 2003.

20. Subsequent Events

In January 2003, AT&T early retired $3.7 billion of long-term notes. In February 2003, AT&T redeemed exchangeable notes that were indexed to AT&T Wireless common stock and subsequently sold its remaining AT&T Wireless holdings. For further information on these items, see notes 7 and 8.

AT&T Board of Directors

David W. Dorman, 49
Chairman of the Board and Chief Executive Officer since November 2002. Elected to the Board in 2002.

Kenneth T. Derr, 66
Retired Chairman of the Board and Chief Executive Officer of Chevron Corporation, an international oil company. Director since 1995. 2, 3

M. Kathryn Eickhoff, 64
President of Eickhoff Economics, Inc., an economic consulting firm. Director since 1987. 1, 3

Frank C. Herringer, 60
Chairman of the Board and former Chief Executive Officer of Transamerica Corporation, a financial services company, which was acquired in 1999 by Aegon N.V., an international insurance organization. Elected to the Board in 2002. 1, 2

Amos B. Hostetter, Jr., 66
Chairman of Pilot House Associates, LLC, a family investment company. Director since 1999. 1, 2

Shirley Ann Jackson, Ph.D., 56
President of Rensselaer Polytechnic Institute. Elected to the Board in 2001. 2, 3

Jon C. Madonna, 59
Retired Chairman and Chief Executive Officer of KPMG, an international accounting and consulting firm. Director since 2002. 1

Donald F. McHenry, 66
Distinguished Professor in the Practice of Diplomacy at the School of Foreign Service at Georgetown University, and President of IRC Group LLC, international relations consultants. Director since 1986. 1, 3

Tony L. White, 56
Chairman of the Board, President, and Chief Executive Officer of Applera Corporation, a life sciences company. Elected to the Board in 2002. 2, 3

1. Audit Committee
2. Compensation and Employee Benefits Committee
3. Governance and Nominating Committee

Ages are as of April17, 2003.

Senior Leadership Team

David W. Dorman
Chairman of the Board and
Chief Executive Officer

Betsy J. Bernard
President

James W. Cicconi
General Counsel and Executive
Vice President
Law and Government Affairs

Hossein Eslambolchi
President of AT&T Labs,
Chief Technology Officer and
AT&T Business Chief
Information Officer

Mirian Graddick-Weir
Executive Vice President
Human Resources

Thomas W. Horton
Senior Executive Vice President,
Chief Financial Officer

Frank Ianna
President
AT&T Network Services

John C. Petrillo
Executive Vice President
Corporate Strategy and
Business Development

John Polumbo
President and Chief Executive
Officer
AT&T Consumer

Kenneth E. Sichau
President
AT&T Business Sales

Constance K. Weaver
Executive Vice President
Public Relations, Brand &
Business Marketing

Other Corporate Officers

Nicholas S. Cyprus
Vice President and Controller

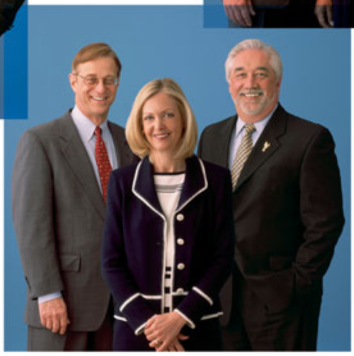
Edward M. Dwyer
Vice President and Treasurer

Robert S. Feit
Vice President, Law
and Corporate Secretary

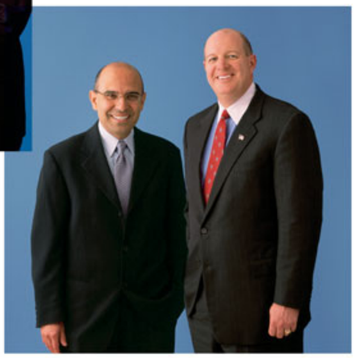
Richard E. Sullivan, Jr.
Investor Relations Vice President

John Petrillo, Mirian Graddick-Weir, John Polumbo

David Dorman, Betsy Bernard, Tom Horton



Jim Cicconi, Connie Weaver, Frank Ianna



Hossein Eslambolchi, Ken Sichau

Corporate Information

Corporate Headquarters
One AT&T Way
Bedminster, NJ 07921-0752

Business

AT&T Business has relationships with about 4 million business customers worldwide who depend on AT&T for voice, data, Internet and managed solutions. For more information about AT&T Business and our products and services, visit our Web site at www.att.com/business. Small/medium business customers can find the right communications solution with the convenience of on-line sales and service by visiting www.att.com/businesscenter/smbushome.html. Large/ global business customers can access our expansive set of local to global business solutions by visiting www.att.com/businesscenter/lgbushome.html. Government customers can locate our suite of integrated technology solutions with professional service expertise by visiting www.att.com/gov.

Consumer

AT&T Consumer has nearly 50 million customer relationships and offers services as diverse as long distance and local services, domestic and international calling plans, prepaid and subscriber calling cards, and dial-up and broadband Internet access. AT&T Consumer also offers customers the convenience of online billing, ordering and customer service. To order a consumer service, visit our Web site at www.consumer.att.com.

AT&T on the World Wide Web

The AT&T Internet home page – www.att.com – is your entry point to a vast array of services and information. One of the most visited sites on the Internet, att.com gives you access to the latest AT&T products for your home, along with the convenience and security of online ordering and billing. The site connects business customers to the services and innovation that give their companies a competitive advantage. In addition, you can navigate to current company news, connections to investor and corporate information and the latest advances from AT&T Labs.

AT&T Giving

For more than 100 years, AT&T has built a tradition of investing in local communities through our ongoing support for education, civic and community service, the environment and the arts. In 2002, the AT&T Foundation contributed nearly $40 million to nonprofit organizations in local communities throughout the United States and many other countries. Also in 2002, AT&T employees volunteered nearly 750,000 hours of community service through the AT&T CARES program. For more information on the AT&T Foundation and AT&T CARES, visit our Web site at www.att.com/foundation.

Environment, Health & Safety

AT&T is dedicated to creating a safe and healthy workplace for AT&T employees and strives to maintain our reputation as one of the top corporate environmental champions. More information about AT&T's environment, health and safety initiatives may be found at our Web site: www.att.com/ehs/.

TelecomPioneers

Since 1911, AT&T has been a sponsor of TelecomPioneers (formerly Telephone Pioneers of America), the world's largest, industry-based volunteer organization. AT&T employees and retirees comprise more than 57,000 of its members. In 2002, TelecomPioneers awarded the AT&T Pioneers its first President's Innovation Award. For more information on the AT&T Pioneers, visit our Web site at www.attpioneers.org.

Supplier Diversity Initiative

As part of AT&T's Supplier Diversity initiative, approximately $870 million of AT&T's total purchases in 2002 were made from minority-, women- and service-disabled veteran-owned business enterprises. More information is available at our Web site: www.att.com/supplier_diversity/.

AT&T Communications Action Network (CAN)

On February 20, the FCC announced its Triennial Review decision, approving new rules to give states more authority over the $125 billion U.S. local-telephone market. Jim Cicconi, AT&T Corp. General Counsel and Executive Vice President, Law and Government Affairs, said, "the result is that consumers will see lower prices and more choices in the marketplace, and the economy will experience more investment and greater innovation." To learn more about this and other important AT&T public policy issues, visit the CAN Web site at www.attcan.org. While you're there, sign up and join our Communications Action Network!

Shareowner Information

Shareowner Services

You can get up-to-the-minute information about your AT&T investment 24 hours a day by visiting www.att.com/ir – the AT&T Investor Relations Web site – where you will find current stock quotes, historical stock prices, financial results, tax basis information, investor news and online access to your AT&T shareowner account. Get fast information about how to arrange for the direct deposit of dividends, change your address, reinvest your dividends or transfer ownership of your shares. If you need more information, send an e-mail to att@equiserve.com, or contact us by phone at 1-800-348-8288. Our interactive voice-response system can answer most of your questions 24 hours a day, seven days a week. Representatives are available Monday through Friday, 8 a.m. to 5 p.m. (Eastern), to assist you. Shareowners outside the United States may call 1-816-843-4282. Shareowners using a telecommunications device for the deaf (TDD) may call 1-800-822-2794. Our fax number is 1-781-575-3261, and our mailing address is:
AT&T Shareowner Services,
c/o EquiServe, P.O. Box 43007,
Providence, RI 02940-3007.

Electronic Access to Proxy Materials

In an effort to reduce the printing and mailing costs associated with the distribution of the AT&T Annual Report and Proxy Statement, AT&T registered shareowners can electronically access, view and download the AT&T Annual Report and Proxy Statement and other materials at the AT&T Investor Relations Web site at www.att.com/ir. AT&T shareowners can choose this option by marking the "Electronic Access" box on the proxy card or by following the instructions provided when voting by telephone or the Internet. If you choose this option prior to each shareowner meeting, you will receive your proxy card, which provides a notice of meeting and a business-reply envelope. Beneficial owners can request the electronic-access option by contacting their broker or financial institution.

Dividend Reinvestment Plan

Participating in the AT&T Shareowner Dividend Reinvestment and Stock Purchase Plan (DRP) is a convenient, systematic way to build your investment. Under Dividend Reinvestment, all or a portion of your dividends are automatically reinvested to purchase additional shares of AT&T common stock. Participants receive periodic account statements tracking reinvestment transactions and account balances. Additional shares of AT&T common stock can be purchased with cash or automatic monthly investments from your bank account. Fees may apply to certain transactions. To obtain a Plan prospectus, contact EquiServe at 1-800-348-8288.

Direct Registration of AT&T Shares

AT&T shareowners are finding it convenient to have shares held in the Direct Registration System, which gives you full ownership of your shares. With Direct Registration, AT&T's transfer agent (EquiServe) holds the shares in your name. You retain full ownership and continue to receive all AT&T dividends, shareowner communications, annual reports and proxy-voting material. You can easily get your account balance or sell your shares by phone or via the Internet. It's safe and convenient. For more information on this service, contact EquiServe at 1-800-348-8288.

Stock Information

AT&T (ticker symbol "T") is listed on the New York Stock Exchange, as well as the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges in the United States; and the Euronext-Paris, and the London and Geneva stock exchanges. As of December, 31, 2002, AT&T had approximately 783 million shares outstanding, held by more than 3.3 million shareowners.

Additional Financial Information

A copy of AT&T's Annual Report on Form 10-K, filed with the Securities and Exchange Commision, may be obtained free of charge by sending a request to:
One AT&T Way
Bedminster, NJ 07921
Attention: Investor Relations
or may be accessed electronically at www.att.com/ir/.

Our Common Bond

We commit to these values to guide our decisions and behavior:

Respect for Individuals
We treat each other with respect and dignity, valuing individual and cultural differences. We communicate frequently and with candor, listening to each other regardless of level or position. Recognizing that exceptional quality begins with people, we give individuals the authority to use their capabilities to the fullest to satisfy their customers. Our environment supports personal growth and continuous learning for all AT&T people.

Dedication to Helping Customers
We truly care for each customer. We build enduring relationships by understanding and anticipating our customers' needs and by serving them better each time than the time before. AT&T customers can count on us to consistently deliver superior products and services that help them achieve their personal or business goals.

Highest Standards of Integrity
We are honest and ethical in all our business dealings, starting with how we treat each other. We keep our promises and admit our mistakes. Our personal conduct ensures that AT&T's name is always worthy of trust.

Innovation
We believe innovation is the engine that will keep us vital and growing. Our culture embraces creativity, seeks different perspectives and risks pursuing new opportunities. We create and rapidly convert technology into products and services, constantly searching for new ways to make technology more useful to customers.

Teamwork
We encourage and reward both individual and team achievements. We freely join with colleagues across organizational boundaries to advance the interests of customers and shareowners. Our team spirit extends to being responsible and caring partners in the communities where we live and work.

By living these values, AT&T aspires to set a standard of excellence worldwide that will reward our shareowners, our customers, and all AT&T people.